

# **IOWA** **Department of REVENUE**

## **Iowa's School Tuition Organization Tax Credit Tax Credits Program Evaluation Study**

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## **Preface**

During the 2005 Legislative Session the Iowa Department of Revenue received an appropriation to establish the Tax Credits Tracking and Analysis Program to track tax credit awards and claims. In addition, the Department was directed to perform periodic evaluations of tax credit programs. This is the first evaluation study completed for this tax credit.

As part of the evaluation, an advisory panel was convened to provide input and advice on the study's scope and analysis. We wish to thank the members of the panel: Margaret Buckton of the Urban Education Network of Iowa, Dr. Brent Kreider of the Iowa State University, Su McCurdy of the Iowa Department of Education, Jim McNulty of the Iowa Department of Revenue, Patti Schroeder of the Iowa Association of School Boards, Joyce Thomsen of the Iowa Department of Education, Dr. Bulent Uyar of the University of Northern Iowa, and Trish Wilger of Iowa Advocates for Choice in Education. (The assistance of an advisory panel implies no responsibility for the final product.)

This study and other evaluations of Iowa tax credits can be found on the Tax Credits Tracking and Analysis Program Web page on the Iowa Department of Revenue Web site located at: <http://www.state.ia.us/tax/taxlaw/creditstudy.html>.

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## **Executive Summary**

The Iowa School Tuition Organization (STO) Tax Credit was enacted in tax year 2006. The nonrefundable credit is awarded to taxpayers who make voluntary cash contributions to a qualifying school tuition organization that provides scholarships to low-income students attending qualified private schools in Iowa. Total awards were capped at \$2.5 million per year. That amount was increased to \$5 million for the 2007 tax year and increased again to \$7.5 million for tax years 2008 through 2011. Effective for tax year 2012 and subsequent tax years, the tax credit cap is \$8.75 million per year.

The major findings of the study are these:

### **Education Scholarship Tax Credit Programs in Other States**

- There are eleven states that currently have some type of scholarship tax credit program.
- None of Iowa's neighboring states offer a school tuition scholarship tax credit.
- Only two states have credit rates that are less than Iowa's 65 percent credit.

### **School Tuition Organization Tax Credit Awards**

- The average award for the last six years was \$2,427 and the median award was \$650, suggesting that the distribution of contributions is highly skewed with many small donations holding down the median but several large donations raising the average award.
- Between 2009 and 2011 when the tax credit cap was \$7.5 million, the average number of awards each year was 3,008.
- In 2010, there were 30 school districts with STO donations over \$100,000. The school district with the most donations was West Des Moines with over \$1 million, followed by the Dubuque and Western Dubuque school districts, with over \$760,000 and \$440,000 in donations, respectively.
- Between the tax years 2006 and 2010, there were nearly 4,800 households that were identified as making at least one donation to a School Tuition Organization. Nearly 40 percent of households made a donation in only one year and less than 10 percent of households made STO contributions in all five years.

### **School Tuition Organization Scholarships**

- Through the 2011-2012 school year, nearly \$43.8 million in donations have been received, generating over \$41.4 million in scholarships for an average of 9,209 students each school year.
- Since the inception of the program, the average scholarship has been \$899.
- 94.6 percent of donations have been issued as scholarships, with the remaining 5.4 percent of donations used for administrative expenses.

## **Characteristics of Households Receiving School Tuition Organization Tax Credit Awards**

- Considering credit award recipients in 2006 through 2010, the number of households making STO contributions rose as adjusted gross income (AGI) increased, reaching a peak of 1,350 for households with AGI between \$75,000 and \$99,999.
- For all filing households, just over 30 percent filed married separately on a combined return compared to nearly 60 percent of households with STO Tax Credit awards.
- Sixty-six percent of the number of awards and 58 percent of the award dollars were received by households with zero dependents.

## **School Tuition Organization Tax Credit Claims**

- Since the inception of the STO Tax Credit nearly \$32.3 million of tax credits have been claimed by individual and corporate income tax taxpayers.
- On average, almost 83 percent of STO Tax Credits are claimed in the first tax year.
- Any 2006 STO award not claimed by the 2011 tax year will expire. Approximately three percent of 2006 awards, or \$83,000, is expected to expire from the first year of awards.

## **Estimated Impacts on Individual Income Tax**

- Higher income households have more state tax liability and a higher federal income tax rate, so they are more likely able to fully claim the STO tax credit against State taxes and they also benefit more from the federal charitable contribution itemized deduction.
- It is estimated that a \$1,000 donation would cost a household with less than \$20,000 in adjusted gross income, on average, \$971 after State and federal taxes.
- A household with median adjusted gross income falls into the \$30,001 to \$40,000 income group, which has an after-tax cost of \$568, on average, for a \$1,000 donation.
- For households with over \$1 million in adjusted gross income, on average, their after-tax cost for a \$1,000 donation was \$44 in tax year 2010.

## **Estimated Impacts on Private School Enrollment**

- Estimates suggest that the presence of the STO scholarships prevent private enrollment from decreasing by approximately 172 to 183 students per each million dollars of scholarships.
- Using the above numbers for the 2010-2011 school year when just over \$11 million in total scholarships were awarded, the availability of the STO scholarships is estimated to have prevented private enrollment from declining between 1,900 to 2,026 students.
- Since the inception of the STO Tax Credit program, the number of private schools open in Iowa has remained constant at 182. Between 2001 and 2006, on average, over two percent of private schools were closing each year.

## **I. Introduction**

The School Tuition Organization (STO) Tax Credit was enacted in 2006 in order to generate private contributions that could then be used by children in Iowa for scholarships to attend accredited, nonpublic schools in the state. Through 2010, \$43.8 million has been contributed toward scholarships, based on information received from the qualified School Tuition Organizations. In that same time \$41.4 million of scholarships have been awarded to over 46,000 students in the state. An additional \$11.5 million was collected in 2011, but the scholarship information for those donations has not been collected as of the publication of this paper.

This evaluation study intends to explain the tax credit, present characteristics of the individuals that are contributing to the STOs, and provide details about the utilization of the tax credits, including the timing of claims and the amount of credits that are being carried forward each year. Information is also provided about the scholarships that are awarded by the STOs. Comparisons are made between households that have received STO Tax Credit awards and all filing households.

The impact on individual income taxes for taxpayers with tax credits is also estimated using the Iowa Department of Revenue individual income tax micro model, which will help identify the after-tax cost of the tax credits for taxpayers. How the STO Tax Credit influences private school enrollment is also estimated.

## **II. Tax Credit Programs for Education Scholarships in the United States**

### **A. The Iowa School Tuition Organization Tax Credit**

The School Tuition Organization Tax Credit went into effect on January 1, 2006. An STO Tax Credit is available to a taxpayer who makes a voluntary cash contribution to a qualifying school tuition organization. Starting in the 2007 tax year, noncash contributions also qualified for the tax credit. The amount of the tax credit equals 65 percent of the contribution made by a taxpayer to the STO. The contribution cannot be used for the direct benefit of any dependent of the taxpayer or any other student designated by the taxpayer.

A qualifying school tuition organization must be a charitable organization in Iowa that is exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code and allocates at least 90 percent of its annual revenue toward tuition grants. The STO must represent more than one school, and can only provide tuition grants to eligible students who are members of households whose annual income does not exceed three times the most recent Federal Poverty Guidelines published by the U.S. Department of Health and Human Services. In 2012, three times the Federal Poverty Guidelines was equal to \$69,150 for a family of four.

The tuition grants help children, who must reside in Iowa, to attend a qualified Iowa school of their parents' choice. In order to be a qualifying school, the school must be an accredited nonpublic school. An accredited school is one that meets or exceeds the minimum requirements for operation as either an elementary or secondary school as stated in the general statutes and regulations adopted by the State Board of Education. The grants may not cover the full tuition cost for the student.

The STO must initially register with the Iowa Department of Revenue (IDR) and must provide verification of 501(c)(3) status, a list of schools the organization serves, and the names and addresses of the board of directors of the organization. Once the organization has registered, it is not required to subsequently register unless the schools it serves changes.

When the credit was enacted in tax year 2006, the tax credit cap was set at \$2.5 million per year. That amount was increased to \$5 million for the 2007 tax year and increased again to \$7.5 million for tax years 2008 through 2011. Effective for tax year 2012 and subsequent tax years, the tax credit cap is \$8.75 million per year.

The tax credit cap is allocated to the qualifying STOs in a given year based on reports from each school served by a school tuition organization. The schools must annually submit a participation form to IDR by November 1<sup>st</sup> which provides the certified enrollment as of October 1<sup>st</sup> and the STO that represents the school. A school cannot be represented by more than one STO. Based on the certified enrollment figures received by IDR, the tax credit cap for the following year is allocated to each STO in proportion to the student enrollment (see Table 1). IDR notifies STO's of their allocation in December; 2013 allocations were just shared. The STOs receive donations and award credits throughout the next calendar year and provide IDR with award information the following January; STOs will soon provide 2012 award information. There has only been one year since the beginning of the program in which less than 97 percent of the credits available were awarded; in 2008, only 82.7 percent of the \$7.5 million cap was awarded due to the award cap being raised half-way through the year.

When the credit was initially enacted, the tax credits could only be awarded to individual income taxpayers. Effective for tax years starting on or after July 1, 2009 this credit can also be issued to corporations and claimed against corporate income tax. An STO can only issue 25 percent of its allotted credits to corporate taxpayers. There is no limit to what an individual taxpayer can contribute, but if an STO exceeds its allotted amount of tax credits, it is the organization's responsibility to prorate the credits appropriately.

The nonrefundable tax credits reduce a taxpayer's tax liability on their tax return if they have tax liability. If a taxpayer does not have any tax liability (or enough to fully utilize the credit) any remaining credit will need to be carried forward to future tax years. Non-residents and part-year residents of Iowa can be awarded credits, but the credits must be prorated based on the ratio of Iowa-source income divided by total income.

## **B. Education Scholarship Tax Credit Programs in Other States**

There are eleven states that currently have some type of scholarship tax credit program (see Table 2). Of the states that currently have programs in place, the program that has been in place the longest is the Individual Income School Tuition Organization Tax Credit in Arizona which was enacted in 1997. Since that time, Arizona has added a tax credit for Corporate Contributions to School Tuition Organizations in 2006 and the Switcher Individual Income School Tuition Organization Tax Credit in 2012. None of Iowa's neighboring states offer a school tuition scholarship tax credit.

The corporate tax credit program in Arizona has an aggregate program cap of \$20.736 million and the credit is equal to 100 percent of eligible contributions. There are no aggregate caps for the individual income tax programs, but the amount of tax credit is limited on a per taxpayer basis for both programs. The Individual Income STO Tax Credit is equal to 100 percent of eligible contributions up to \$503 for single and head of household filers and \$1,006 for joint filers

in tax year 2012. The Switcher Individual Income STO Tax Credit is also equal to 100 percent of eligible contributions but the limits for tax year 2012 are \$500 for single and head of household filers and \$1,000 for joint filers. In order to receive a Switcher STO credit an individual must first make a maximum contribution to the regular Individual Income STO Tax Credit program.

The largest tax credit program currently enacted is Florida's Tax Credit Scholarship Program which has a program cap of \$229 million in fiscal year 2013. The credit is equal to 100 percent of the eligible contribution. Unlike most other states where credits can only be taken against corporate and/or individual income taxes, and occasionally franchise tax, Florida also allows credits to be claimed against the oil and gas production tax and the liquor, wine, and malt beverage excise tax; it should be noted that Florida does not have an individual income tax.

Pennsylvania has two different programs, one focuses on offering low-income students scholarships and the other focuses on offering scholarships to children who reside in school districts that have been designated as low-achieving. Combined, the programs have a cap of \$150 million. The amount of the credit is equal to 75 percent of eligible contributions unless the taxpayer commits to make the same donation in the following year, then the amount of the credit increases to 90 percent of the eligible contribution, although there are some individual credit caps that may apply to the different credits (see Table 2).

Only Indiana and Oklahoma have lower credit rates than Iowa's 65 percent. Indiana's rate is 50 percent of qualifying contributions and Oklahoma's rate is also 50 percent, but it can be increased to 75 percent if the taxpayer commits to the same donation amount for two consecutive years. Four states, Arizona, Florida, Georgia, and Louisiana, offer credit rates of 100 percent of qualifying contributions, although in Arizona the maximum qualifying donation is \$1,000 per tax credit program.

With the exception of the tax credit program in Louisiana, all of the other state scholarship tax credits currently offered are nonrefundable. This means that the taxpayer must have tax liability in order to utilize the tax credit. Most of the states that have nonrefundable credits offer carry forward that allows taxpayers to claim the balance of the tax credit in subsequent tax years. Only Indiana, Pennsylvania, and Rhode Island offer no carry forward. Most other states that offer carry forward allow five years for the credits to be carried forward, although Oklahoma only allows three years.

Most states require that the scholarships generated by the contributions collected go to low-income families, although the threshold differs among states. The percentage is usually based on either the Federal Poverty Guidelines or the National School Lunch Program's free and reduced-price lunch income thresholds which are 130 percent and 185 percent of the Federal Poverty Guidelines, respectively. In general, the low-income threshold varies between 200 and 300 percent of either the Federal Poverty Guidelines or the free and reduced-price lunch income guidelines. Arizona's individual income tax credit programs are the only tax credit scholarship programs that place no restrictions on the recipients of scholarships and Georgia's program has no income limits on student recipients, but does require the recipients to be state residents enrolled in a public school.

In most cases, states do not allow an eligible donation to also be taken as a charitable deduction. However, in Georgia, taxpayers can deduct any portion of their donation for which they did not receive a tax credit. Another common practice across states is that the taxpayer making the donation cannot designate which student receives a scholarship from their donation. There is an exception to this in Louisiana if the designated student is disabled. Most states also

require that a minimum percentage of donations received be distributed as scholarships. That percent varies, usually between 90 and 95 percent.

### **III. Literature Review**

There has not been a lot of analytical literature written about school tuition scholarship tax credit programs. The nature of most of the literature that has been published has been either theoretical or statistical.

A report published by The Friedman Foundation for Educational Choice examined the Florida Tax Credit Scholarship Program, which is the largest program of its kind in the United States (Forster and D'Andrea, 2009). The analysis provided in the report was based on phone surveys with the parents of children who received scholarships from the tax credit program. The parents that participated in the study indicated that their children were "receiving dramatically better educational services (from their current private schools) than they had received in public schools before they entered the program" (pg. 13).

The Keystone Research Center, which is based in Pennsylvania, published a report about the existing tax credit program in Pennsylvania prior to the addition of an additional tax credit scholarship program that was enacted in 2012 (Herzenberg, 2011). In addition to providing statistical information, the report primarily discussed the lack of educational accountability. The Pennsylvania program did not require schools receiving scholarships to report on children's educational progress. There was also a lack of data on the students receiving scholarships, including academic achievement statistics as well as demographic information. The main point of concern in the Herzenberg report was how the "lack of accountability governing taxpayer dollars diverted to the (tax credit) program stands in stark contrast to the increasing accountability faced by public schools and their students" (pg. 2).

Another analysis focused on the programs in the state of Arizona and the income of the families of students that have received scholarships (Murray, 2010). This issue is of greater concern in Arizona than in most other states as the legislation did not establish any family income requirement for scholarship recipients for the individual income tax credit programs. For scholarships generated by the corporate income tax credit program donations, a scholarship recipient's family income must be at or below 185 percent of the free and reduced-price lunch income guidelines. Using student-level data, the analysis found that recipients' median family incomes were nearly "\$5,000 lower than the U.S. Census Bureau statewide median annual income" and "more than two-thirds...of scholarship recipients' family incomes would qualify them for the means-tested corporate income tax-credit scholarship program" (pg. 6).

There have also been reports of the misuse of scholarship tax credit programs. In a 2012 article published in *The New York Times*, it was reported that in at least one private school in the state of Georgia (where the annual aggregate tax credit cap is \$50 million) parents were instructed to donate and then fill out scholarship applications as only "a very small percentage of that money (would) be set aside for a needs-based scholarship fund...the rest of the money (would) be channeled to the family that raised it" (Saul, 2012). It should be noted that Georgia does not have income requirements set for families receiving scholarships, but does state that donations cannot be designated for a specific student.

The one requirement that does exist for recipients of the Georgia scholarships is that they must be enrolled in a public school in order to be eligible for the private school scholarship. This led to parents enrolling their children in public schools with no intention of their children actually

attending the public school. According to Georgia State Representative David Casas, the wording used in the legislation “was intentional – using the word ‘enrolled’ rather than ‘attending’ – to enable the scholarships’ use by students already in private schools” (Saul, 2012). According to the article this interpretation was supported by the Georgia Department of Education.

This is not to imply that Georgia’s scholarship tax credit program has any more issues than other states’ programs, but just that there have been concerns raised about how the program operates. In Pennsylvania, one concern is that donations have been politicized, due to lobbyists operating the tuition organizations. In Georgia and Arizona, there have also been cases where lawmakers start or control their own scholarship organizations (Saul, 2012). There have not been any reports of misuse of the Iowa STO Tax Credit as of the publication of this paper.

#### **IV. Analysis of Iowa School Tuition Organization Tax Credit Awards and Claims**

##### **A. School Tuition Organization Tax Credit Awards**

The STO Tax Credit cap has increased from \$2.5 million in 2006 to \$8.75 million in 2012 and 2013. The total number of students enrolled in schools that participate in the STO program has increased slightly since the program’s inception, but that is mostly due to additional organizations being added (see Table 3). When considering only the average number of students per STO, the number of students has declined every year since the beginning of the program which is also true of total private school enrollment in Iowa.

In 2006, when the tax credit cap was \$2.5 million, there were 1,125 tax credit awards issued (see Table 4). The most STO Tax Credit awards were issued in 2009, when the number reached 3,160. Between 2009 and 2011 when the tax credit cap was \$7.5 million, the average number of awards each year was 3,008. It should be noted that these are not necessarily the number of individuals or households, but the number of tax credit certificates issued. An individual or household can receive multiple tax credit certificates in a single year for several reasons. One reason is that some taxpayers choose to make several donations to one STO which generates multiple certificates. Some individuals also choose to donate to more than one STO, in which case each STO has to issue the taxpayer a separate tax credit certificate. It is also possible that both spouses in a household make donations to one or more qualified STOs and each spouse receives one or more tax credit certificates.

The donations received by school tuition organizations are then used to issue scholarships to children attending accredited, nonpublic schools that belong to the corresponding STO. Through the 2011-2012 school year (donation year 2010) nearly \$43.8 million in donations have been received, generating over \$41.4 million in scholarships for 46,045 students (see Table 5). The number of students that have received scholarships are not unique students; it is likely that qualifying students receive scholarships in more than one school year. The largest amount of donations was received in 2010, but the greatest amount of scholarships was distributed in the 2010-2011 school year from the 2009 donations when total scholarships exceeded \$11 million. Since the inception of the program, the average scholarship has been \$899 and 94.6 percent of donations have been issued as scholarships, meaning that 5.4 percent of donations have been used for administrative expenses.

Taxpayers are allowed to donate any amount they wish to a qualified STO and they then receive a tax credit certificate equal to 65 percent of their donation. The smallest tax credit

award that has been issued was for \$5 in 2010 for an \$8 donation (see Table 4).<sup>1</sup> The largest single tax credit award that has been issued was \$325,000 in 2011 for a \$500,000 donation. Regardless of the overall tax credit cap, the average tax credit award each year has not changed significantly since the program started in 2006. In the last five years, the lowest average award was \$2,191 in 2008 and the highest was \$2,645 in 2011. The overall average award for the last six years is \$2,427. In contrast, every year since the inception of the program, the median award has been \$650. This suggests that the distribution of awards, and thus donations, is highly skewed with many small donations holding down the median but several large donations raising the average (see Figure 1).

In 2010, there were 30 school districts with residents making a total of over \$100,000 in donations resulting in at least \$65,000 in tax credits issued to taxpayers within that school district (see Figure 2). The school district with the most donations was West Des Moines with over \$1 million, followed by the Dubuque and Western Dubuque school districts with over \$760,000 and \$440,000 in donations, respectively. It can be seen that the highest donations are generally focused around school districts that have accredited, nonpublic schools either within the school district or within close proximity. Most of the school districts that do not have any donations are not located near any accredited, nonpublic schools.

Just as interesting as total tax credit awards are per capita STO Tax Credit awards in tax year 2010 (see Figure 3). There were six school districts in the state that had per capita STO Tax Credit awards that exceeded \$15. Of these, three are adjacent school districts located in the northwest corner of the state (Sioux Center, MOC-Floyd Valley, and Rock Valley). The three school districts combined contain five different accredited, nonpublic schools with other accredited, nonpublic schools located in the near vicinity. The other two school districts that have high per capita tax credit awards and accredited, nonpublic schools within their district are Carroll and Jesup. The only school district that has high per capita STO Tax Credit awards and no accredited, nonpublic school is Paton-Churdan. This anomaly is due to at least one large donation made by taxpayers living within the Paton-Churdan school district which skews the overall school district per capita number.

## **B. Characteristics of School Tuition Organization Tax Credit Award Recipients**

When the STO Tax Credit was enacted, the tax credit could only be awarded to taxpayers filing individual income tax. Effective for tax years starting on or after July 1, 2009 the credit could also be issued to corporations (see Table 6). Since that time, only 39 corporations have been awarded a total of \$284,000 in tax credits, still making individual households the primary contributors to School Tuition Organizations.

One question that is often asked is “What are the characteristics of households contributing to the STOs?” To help answer this question, tax credit awards to individual taxpayers were matched to tax returns filed in the same year of the award. The awards were aggregated by household so if a contributor (or their spouse) received more than one tax credit award, only one household award amount appears in the dataset. If taxpayers used filing status married filing separately on the same return, both spouses’ adjusted gross incomes were also summed to create a household adjusted gross income (AGI).<sup>2</sup> This analysis used returns from tax years 2006 through 2010 as the 2011 tax year was not complete at the time of this study.

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<sup>1</sup> For the purpose of this analysis, the amount of all tax credit awards has been rounded to the nearest dollar since tax returns are calculated in whole dollars.

<sup>2</sup> The adjusted gross income amounts in all tax years were adjusted to 2010 dollars to account for inflation.

On average, about 98 percent of the amount of tax credits awarded each year was able to be matched to a tax return. There are several reasons why a contributor would not be able to be matched to a tax return. One reason is that the contributor filed their return late and therefore did not make it into the dataset of returns for that given tax year. Another reason is that the contributor may not have met the filing threshold and so was not required to file a return that tax year. One other reason is that there could be some errors in the award data that prevented a contributor from being matched to a return.

Based on the matches to tax returns, several interesting trends were seen in relation to the AGI of contributing households. The number of households making STO contributions rises as AGI increases, reaching a maximum of 1,350 for households with AGI between \$75,000 and \$99,999 (see Table 7). Then the number of households dips until rising again to 1,240 for households with AGI between \$250,000 and \$499,999. The amount of tax credits awarded to households follows a somewhat similar, yet much more pronounced, pattern (see Figure 4). The percentage of award dollars grows slowly with each AGI category up to the households with AGI between \$100,000 and \$124,999 and then decreases until spiking sharply when reaching the households with AGI between \$250,000 and \$499,999. Over 60 percent of the tax credit dollars were awarded to households with adjusted gross income over \$250,000.

When evaluating the tax credit awards by the filing status of the households there are a couple of interesting notes (see Table 8). Single filers account for nearly 20 percent of the households receiving tax credit awards, but less than 10 percent of the amount of awards. Households that file as married filing jointly also account for just under 20 percent of the number of awards, but those households constitute over 30 percent of the amount of tax credits awarded between 2006 and 2010. For other filing statuses, both the percent of the number of awards and the percent of the amount of awards are much closer.

Another point of interest is to examine the number of dependents present in a household. Although STO contributions support students, 66 percent of the number of awards and 58 percent of the award dollars were received by households with zero dependents (see Table 9). Of all of the different household characteristics the least amount of variation between the percent of number of awards and the percent of the amount of awards is seen when comparing the number and amount by the number of dependents in a household (see Figure 5).

In the five tax credit award years between 2006 and 2010 the average tax credit award was \$2,511 (see Figure 6). When using all of the previously discussed household characteristics to look at average awards there are a few interesting notes. The first is with regard to household dependents; only households with no dependents had below average awards. Alternately, when looking at filing status, only households with married filing jointly as their status had an average award that was above the overall average. Out of the seventeen AGI ranges, only five ranges had awards that exceeded the overall average. The AGI ranges were the top four (income over \$200,000) and "No AGI" which reflects taxpayers with zero or negative reported income. Clearly the high average award (\$18,000) received by the highest income taxpayers is skewing the overall average.

Between the tax years 2006 and 2010, there were nearly 4,800 households that were identified as making at least one donation to a School Tuition Organization (see Table 10).<sup>3</sup> Nearly 40

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<sup>3</sup> This number did not include any awards that did not match to an individual income tax return because if the match to income tax data is not made it is not possible to determine a household.

percent of households made a donation in only one year and less than 10 percent of households made STO contributions in all five years.

### **C. Comparison of School Tuition Organization Tax Credit Award Recipients and All Households**

The first examination of household AGI compares the distribution of AGI groups for all income tax filers to the distribution of AGI groups for only those households receiving STO tax credit awards (see Figure 7). As expected, as AGI increases, the percent of all filing households decreases. As noted above, for the households with STO Tax Credit awards the distribution peaks at households having AGI between \$75,000 and \$99,999. The second largest percentage of households with awards had AGI between \$250,000 and \$499,999.

Another characteristic to compare is the filing status of all filers to the filing status of those households with STO Tax Credit awards (see Figure 8). The one noticeable difference is that for all households, just over 30 percent filed married separately on a combined return compared to nearly 60 percent of households with STO Tax Credit awards. Conversely, about 20 percent of filers with STO Tax Credit awards filed single compared to over 40 percent of all households.

The distribution by the number of dependents in each household was also compared between all filing households and those households with STO Tax Credit awards (see Figure 9). The largest percent of households for both all filers and filers with STO Tax Credit awards were households with no dependents with over 65 percent of STO award recipients in that group. Households with STO Tax Credit awards that had one or two dependents were the only groups that had a lower percentage than all households with the same number of dependents.

### **D. School Tuition Organization Tax Credit Claims**

Since the inception of the School Tuition Organization Tax Credit nearly \$32.3 million of tax credits has been claimed, of which corporate income tax taxpayers claimed only \$228,000. When tax credit awards are issued to taxpayers, each award has a unique certificate number which allows IDR to track the tax credit awards and claims over time. Because awards can be claimed over six different tax years (first tax year equal to the award year and five subsequent carry forward tax years) tracking claims identifies utilization patterns that help forecast the fiscal impact of future tax credit awards. There are different ways to track when tax credit awards are claimed. One way is by the award year, which is the year that the tax credit award was issued to the taxpayer. The other ways are by the tax year the claim was filed and the fiscal year in which the claim was filed (see Table 11). While it appears that most tax credits are claimed during the same tax year in which the credits were awarded, a clear lag exists between the tax year and the fiscal year of claim. This reflects in part the fact that the state fiscal year begins in the July of the prior tax year and that tax returns are not due until April of the following calendar year.

On average, almost 83 percent of STO Tax Credits are claimed in the first tax year (see Table 12). The nonrefundable tax credit awards can be carried forward for five additional tax years before they expire. The tax credits that were issued in 2006 are the only awards that have reached expiration. Any 2006 STO award not claimed by the 2011 tax year will expire. At the time of this report, approximately three percent of 2006 awards, or \$83,000, are expected to expire from the first year of awards.

When STO Tax Credit claims are analyzed by the real AGI of the households that made the claims, there is some variation in the pattern between tax years 2006 and 2010 (see Figure 10). But, in general, the claims have a similar pattern, so further analysis will consider claims made in tax years 2006 through 2010 together (see Table 13). During the five years, there were

10,809 households that were identified as claiming tax credits. Households are counted multiple times if they had claims in multiple years, but the AGI for those households will be unique to the year of the tax credit claim. However, for households with multiple awards in the same year, any claims made on those awards are aggregated within the tax year and the household is counted only once. The identified households include a small number of households that have claimed credits incorrectly. IDR is attempting to recover incorrectly claimed credits with the exception of claims that were made on returns that are no longer in statute (tax year 2008 and prior years). As expected the claims follow a similar pattern as awards with the number of claims peaking at the \$75,000 to \$99,999 and \$100,000 to \$124,999 ranges but the total dollars of claims peaking in the AGI ranges of \$250,000 and greater.

Taxpayers do not always have enough tax liability to fully utilize the nonrefundable tax credits in the year that they are issued. As mentioned earlier, on average, 83 percent of credits are claimed in the first year with the remaining 17 percent of credits being carried forward to subsequent tax years. Between 2006 and 2010, just over 22 percent of households that had available credits in any given year carried credits forward to later tax years, where additional households with only carry forward are included (see Table 14). The percent of households with carry forward has increased over time as households continue to accumulate credits when they make additional donations in later years but still have credits available to claim from donations made in prior years. Of the households that are carrying forward credits, on average, those households are carrying forward over 60 percent of their available credits each year. The highest percent carried forward was in 2009 (almost 67 percent) when tax liabilities were likely reduced because of the recession, lowering the amount of tax credits households could claim.

The effect of the recession on credit carry forward in 2009 is significant as the amount of carry forward increased over 100 percent (see Table 15). However, in 2010 the amount of credit carry forward decreased by over \$1 million. The only AGI group that has a credit carry forward amount that continues to grow each year is the No AGI group. This is likely a result of this group having little or no tax liability.

## **V. Estimated Impacts of the School Tuition Organization Tax Credit**

### **A. Estimated Impacts on Individual Income Taxes**

Because donations to School Tuition Organizations result in taxpayers receiving tax credits that can be used against their Iowa income tax liability, the actual cost to the taxpayer is less than the face value of the donation. In addition to the STO Tax Credit that can be taken against state income taxes, the taxpayer can also use the donation as a charitable contribution itemized deduction if the taxpayer chooses to itemize deductions instead of taking the standard deduction on their federal taxes. Using the Iowa Department of Revenue individual income tax model, it is possible to estimate the after-tax cost of a \$1,000 donation to taxpayers in different income brackets in tax year 2010 (see Table 16).<sup>4</sup>

Most interesting is the difference in after-tax cost for households with lower income compared to households with higher income. Based on this analysis, it is estimated that a \$1,000 donation would cost a household with less than \$20,000 in adjusted gross income, on average, \$971. Alternatively, for households with over \$1 million in adjusted gross income, on average, their after-tax cost was \$44. A household with the median adjusted gross income would fall into the

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<sup>4</sup> Calculation is based on tax year 2010 when the maximum federal marginal tax rate was 35% and there was no phase-out of itemized deductions for high income taxpayers.

\$30,001 to \$40,000 income range and would have an after-tax cost of \$568, on average. Because lower income households have less tax liability they are less likely to be able to fully utilize the credit and they are also less likely to itemize deductions than the higher income households. Higher income households have more state tax liability and a higher federal income tax rate, so they benefit more from the federal charitable contribution itemized deduction.

## **B. Estimated Impacts on Private School Enrollment**

One common question is whether the School Tuition Organization Tax Credit has changed private school enrollment. Because the STO Tax Credit encourages donations used to provide private school tuition scholarships for low income students, it is reasonable to believe that the credit would increase the number and proportion of students attending accredited, non-public schools within Iowa. Regression analysis was used in an effort to answer this question. Tables 17 and 18 provide a description and summary statistics of the variables.

Recall that in 2006, the STO Tax Credit was introduced, funding \$3.6 million in scholarships. That amount rose each year through 2009 as the award cap was increased, reaching \$11.1 million. In 2010, scholarships dropped to \$10.8 million (see Table 5). We see that over that same time private school enrollment dropped, continuing a downward trend from 41,000 students in 2001 to 33,400 in 2010 (see Figure 11). Likewise the share of Iowa students enrolled in private school has dropped from 7.7 percent in 2001 to 6.6 percent in 2010. However the question still remains whether without the introduction and expansion of the credit the decline would have been even greater. The STO Tax Credit in 2010 provided more than 10,000 students scholarships averaging over \$1,000, which should make private school more attainable for those families that fall within the established income restrictions.

The STO scholarships are not the only factor that could explain changes in private school enrollment or the private enrollment share. One expectation is that as the number of school age children in the state changes, the number of children enrolled in private schools would also change. School age children are approximated with the population aged 0 to 19. Another major determining factor in private school enrollment is the tuition cost for attending private school. It is expected that as tuition costs increase private school enrollment will decrease as fewer families will be able to send their children to private school. Access to private schools can also affect the number of students that are able to attend private school. It is expected that as the number of private schools open across the state changes, so too will private school enrollment.

The first regression attempts to explain changes in the percent private school enrollment in Iowa over the 2001 through 2010 period. Along with the total dollars of STO scholarships awarded, adjusted to 2010 dollars, the regression also controls for real private tuition, the number of private schools, and a time trend. All of the estimated effects of the variables had the expected sign, but only the number of private schools was significant at the five percent level (see Table 19). Despite the estimated effect of the scholarship dollars just falling short of that high level of significance, the coefficient does suggest that for each million dollars in scholarships awarded the percent private school enrollment would be 0.03 percentage points higher than without the scholarships, which translates to private school enrollment being approximately 172 students higher than it would have been without the STO scholarships.

The second regression attempts to explain changes in the number of children enrolled in private schools in Iowa over the 2001 through 2010 period. This regression controls for the number of school age children (aged 0-19) in Iowa, private school tuition, scholarships awarded, the number of private schools, and a time trend. Once again, all of the estimated coefficients had the expected sign, but none of the coefficients were significant at the five percent level (see

Table 20). These results suggest that for each million dollars in scholarships awarded, the number of students enrolled in private schools was 183 higher than it would have been without the scholarships, although statistically that number is no different than zero.

Estimates from both of these regressions suggest that the presence of the STO scholarships prevent private enrollment from decreasing by approximately 172 to 183 students per each million dollars of scholarships, or 1,900 to 2,026 students in the 2010-2011 school year when there were just over \$11 million in total scholarships awarded. Another interesting note is that since the inception of the STO Tax Credit program, the number of private schools open in Iowa has remained constant at 182. Between 2001 and 2006, on average, over two percent of private schools were closing each year. This may suggest that the STO Tax Credit program, at a minimum, helps maintain access to private education within the state and offset, at least partially, the impact of demographic factors on private school enrollment.

## **VI. Conclusion**

Since tax year 2006, over \$32 million in tax credits has been claimed by taxpayers who made donations to School Tuition Organizations. In that same time, over \$41 million and over 46,000 scholarships to accredited, nonpublic schools has been awarded to students. Based on the data provided in this study it appears that there are a number of households within the state of Iowa that support helping children attend accredited, nonpublic schools. With the exception of one year, the full tax credit cap has been almost fully utilized every year.

It is possible that some high income taxpayers are participating in the program as a tax strategy due to the 65 percent state tax credit rate and the ability to use the STO contribution as a charitable itemized deduction on their federal tax return, but there are a higher number of households that benefit significantly less on their taxes and continue to contribute to an organization they believe in.

Based on the analysis completed by this study, it is suggested that this program helps maintain access to private schools across Iowa. While overall enrollment at accredited, nonpublic schools has decreased in the time period that this study covers, data suggests that enrollment would have dropped even more without the presence of the tax credit.

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**Iowa's School Tuition Organization  
Tax Credit  
Tax Credits Program Evaluation Study  
Tables and Figures**

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**Table 1. Allocation of Tax Credits to School Tuition Organization by Year**

<b>School Tuition Organization</b>	<b>Location</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Catholic Tuition Organization, Diocese of Des Moines	Des Moines	\$444,779	\$846,759	\$1,283,992	\$1,273,851	\$1,291,597	\$1,310,148	\$1,536,068	\$1,530,184
Heart of Iowa STO	Des Moines	\$88,850	\$214,428	\$398,067	\$405,000	\$395,445	\$419,659	\$519,683	\$510,062
Legacy of Grace STO	Pella	\$75,835	\$141,943	\$209,082	\$215,204	\$210,963	\$220,779	\$255,663	\$260,129
Mississippi Valley STO	Davenport	\$131,207	\$251,030	\$371,344	\$398,703	\$409,789	\$418,541	\$483,906	\$495,421
Monsignor Lafferty Tuition Foundation	Sioux City	\$450,196	\$844,453	\$1,276,296	\$1,275,154	\$1,297,555	\$1,258,082	\$1,431,609	\$1,443,649
North Central Iowa STO	Fort Dodge	\$11,059	\$20,319	\$25,654	\$25,842	\$23,171	\$24,581	\$26,376	\$25,359
Northwest Iowa Christian STO	Sioux Center	\$181,463	\$340,808	\$506,884	\$525,741	\$524,759	\$540,774	\$631,977	\$648,100
Our Faith, Our Children, Our Future STO	Dubuque	\$920,704	\$1,730,265	\$2,499,786	\$2,465,399	\$2,425,413	\$2,383,428	\$2,772,601	\$2,727,300
STO of Southeast Iowa	Clinton	\$195,907	\$384,904	\$526,124	\$502,505	\$489,452	\$486,920	\$590,976	\$557,120
Iowa Lutheran STO	Waterloo		\$225,091	\$311,912	\$318,789	\$317,327	\$314,409	\$365,867	\$389,801
Iowa Independent STO	Fairfield			\$90,859	\$93,812	\$91,358	\$96,758	\$104,981	\$127,058
Independent School Association of Eastern Iowa STO	Cedar Rapids					\$23,171	\$25,921	\$30,293	\$35,817
<b>Total</b>		<b>\$2,500,000</b>	<b>\$5,000,000</b>	<b>\$7,500,000</b>	<b>\$7,500,000</b>	<b>\$7,500,000</b>	<b>\$7,500,000</b>	<b>\$8,750,000</b>	<b>\$8,750,000</b>
<b>Percent Issued</b>		<b>99.996%</b>	<b>97.738%</b>	<b>82.672%</b>	<b>98.694%</b>	<b>100.000%</b>	<b>99.992%</b>		
<b>Total Issued</b>		<b>\$2,499,904</b>	<b>\$4,886,880</b>	<b>\$6,200,378</b>	<b>\$7,402,020</b>	<b>\$7,499,992</b>	<b>\$7,499,413</b>		

Source: Iowa Department of Revenue Tax Credit Awards Database

**Table 2. Scholarship Tax Credit Programs in Other States as of December 31, 2012**

State	Program	Enacted	Annual Program Cap	Amount of Tax Credit	Qualifying Tax Types	Refundable	Carry Forward	State Itemized Deduction	Scholarship Recipient Guidelines
Arizona	Individual Income School Tuition Organization Tax Credit	1997	None	100% up to \$503 for single and head of household filers or \$1,006 for joint filers in tax year 2012.	Individual Income Tax	No	5 Years	No	None
	Switcher Individual Income School Tuition Organization Tax Credit*	2012	None	100% up to \$500 for single and head of household filers or \$1,000 for joint filers in tax year 2012.	Individual Income Tax	No	5 Years	No	None
	Corporate Contributions to School Tuition Organizations	2006	\$20.736 million	Credit is equal to 100% of the eligible contribution.	Corporate Income Tax	No	5 Years	No	At least 185% or below the free and reduced-price lunch income guidelines.
Florida	Tax Credit Scholarship Program	2001	\$229 million in FY 2013	Credit is equal to 100% of the eligible contribution.	Corporate Income Tax, Insurance Premium Tax, Oil and Gas Production Tax, and Liquor, Wine, and Malt Beverage Excise Tax	No	5 Years	No	Student must qualify for free or reduced-price school lunches, be currently placed, or during the previous state fiscal year was placed, in foster care. The student continues in the scholarship program as long as the student's household income level does not exceed 230% of the federal poverty level.
Georgia	Private School Tax Credit for Donations to Student Scholarship Organizations	2008	\$50 million	100% up to \$1,000 for single or head of household filers, up to \$1,250 for married filing separate, and \$2,500 for married filing a joint return. The lesser of 75% of a corporation or trust's income tax liability or the actual amount donated.	Individual Income Tax and Corporate Income Tax	No	5 Years	No, but can take deduction for any portion of a donation that does not receive a credit.	Student must be a Georgia resident enrolled in a Georgia secondary or primary public school or eligible to enroll in a qualified kindergarten or pre-kindergarten program.

**Table 2 (continued) Scholarship Tax Credit Programs in Other States as of December 31, 2012**

State	Program	Enacted	Annual Program Cap	Amount of Tax Credit	Qualifying Tax Types	Refundable	Carry Forward	State Itemized Deduction	Scholarship Recipient Guidelines
Indiana	School Scholarship Tax Credit	2009	\$5 million	Credit is equal to 50% of eligible contribution.	Individual Income Tax and Corporate Income Tax	No	No	No	At least 200% below the free and reduced-price lunch income guidelines.
Iowa	School Tuition Organization Tax Credit	2006	\$8.75 million	Credit is equal to 65% of eligible contribution.	Individual Income Tax and Corporate Income Tax	No	5 Years	No	Less than 300% of federal poverty guidelines.
Louisiana	Tax Credit for Donations to School Tuition Organizations	2012	None	Credit is equal to 100% of the eligible contribution.	Individual Income Tax, Corporate Income Tax, and Franchise Tax	Yes	No	No	Less than 250% of federal poverty guidelines.
New Hampshire	Corporate Education Tax Credit	2012	\$3.4 million in the first year, and \$5.1 million in the second year. That cap will increase by 25 percent per year thereafter if usage is above 80 percent.	Credit is equal to 85% of eligible contribution. One taxpayer cannot receive more than 10% of the aggregate tax credits available.	Business Profits Tax and Business Enterprise Tax	No	Not available	No	Less than 300% of federal poverty guidelines. At least 40% of scholarships must go to students eligible for the federal free or reduced-price lunch program.
Oklahoma	Oklahoma Equal Opportunity Education Scholarships	2011	\$3.5 million (\$1.75 million for individual income tax and \$1.75 million for corporate income tax)	Credit is equal to 50% of eligible contribution (75% if the taxpayer commits to the same amount for two consecutive years). Up to \$1,000 for single taxpayers, \$2,000 for married couples, and \$100,000 for corporations.	Individual Income Tax and Corporate Income Tax	No	3 Years	No	Less than 300% of free and reduced-price school lunches or who attend or live in the attendance zone of a public school designated as in need of improvement.

**Table 2 (continued) Scholarship Tax Credit Programs in Other States as of December 31, 2012**

State	Program	Enacted	Annual Program Cap	Amount of Tax Credit	Qualifying Tax Types	Refundable	Carry Forward	State Itemized Deduction	Scholarship Recipient Guidelines
Pennsylvania	Educational Opportunity Scholarship Program	2012	\$50 million	For donations to a Educational Opportunity Organization the credit is equal to 75% of qualified contribution (90% if the taxpayer commits to the same amount for two consecutive years). Credits per taxpayer are limited to \$400,000 in the first year, \$750,000 in the second year, and is eliminated after that.	Corporate Net Income Tax, Capital Stock Franchise Tax, Bank and Trust Company Shares Tax, Title Insurance Companies Shares Tax, Insurance Premiums Tax, and Mutual Thrift Institutions Tax. Also Personal Income Tax for shareholders of S corporations or partnerships.	No	No	No	Eligible students must reside within the attendance boundaries of a low-achieving school and household income must be below \$60,000, plus \$12,000 for each dependent in the household through June 30, 2013. After June 30, 2013 the household income must be below \$75,000 plus \$12,000 for each dependent in the household. Additional income adjustment can be made for students with a disability.
	Educational Improvement Tax Credit Program	2001	\$100 Million	For donations to a Scholarship Organization or an Educational Improvement Organization the credit is equal to 75% of qualified contribution (90% if the taxpayer commits to the same amount for two consecutive years). Credit is limited to \$300,000 each year per taxpayer. For contributions to Pre-Kindergarten Scholarship Organizations a business may receive a tax credit equal to 100% of the first \$10,000 contributed and up to 90% of the remaining amount contributed up to a maximum credit of \$200,000 annually.	Corporate Net Income Tax, Capital Stock Franchise Tax, Bank and Trust Company Shares Tax, Title Insurance Companies Shares Tax, Insurance Premiums Tax, and Mutual Thrift Institutions Tax. Also Personal Income Tax for shareholders of S corporations or partnerships.	No	No	No	Household income must be below \$60,000, plus \$12,000 for each dependent in the household. Additional income adjustments can be made for students with a disability.

**Table 2 (continued) Scholarship Tax Credit Programs in Other States as of December 31, 2012**

State	Program	Enacted	Annual Program Cap	Amount of Tax Credit	Qualifying Tax Types	Refundable	Carry Forward	State Itemized Deduction	Scholarship Recipient Guidelines
Rhode Island	Tax Credits for Contributions to Scholarship Organizations	2006	\$1 million	Credit is equal to 75% of the qualified contribution (90% if the taxpayer commits to donate for two consecutive years and the second year's donation is equal to at least 80% of the first year's donation).	Corporate Income Tax	No	No	No	At or below 250% of federal poverty guidelines.
Virginia	Education Improvement Scholarships Tax Credit	2012	\$25 million	The credit is equal to 65% of eligible contributions. The minimum donation allowed is \$500, but the tax credit is limited to \$50,000 per household, the \$50,000 limitation does not apply to corporations.	Individual Income Tax and Corporate Income Tax	No	5 Years	No	Less than 300% of federal poverty guidelines or students with special needs.

\*Cannot claim this credit without making the maximum donation to the original STO credit.

Sources: The Friedman Foundation for Educational Choice Web site: [www.edchoice.org](http://www.edchoice.org)  
 Various state Web sites

**Table 3. Enrollment and School Tuition Organization Tax Credit Statistics by Year**

Year	Enrollment of Participating Schools	Number of Active STOs	Average Number of Students per STO	STO Program Award Cap	Average Credit Per Enrolled Student
2006	33,230	9	3,692	\$2,500,000	\$75
2007	34,697	10	3,470	\$5,000,000	\$144
2008	35,082	11	3,189	\$7,500,000	\$214
2009	34,537	11	3,140	\$7,500,000	\$217
2010	33,987	12	2,832	\$7,500,000	\$221
2011	33,563	12	2,797	\$7,500,000	\$223
2012	33,506	12	2,792	\$8,750,000	\$261
2013	33,469	12	2,789	\$8,750,000	\$261

Source: Annual Reports from School Tuition Organizations

**Table 4. School Tuition Organization Tax Credit Award Statistics**

Year of Tax Credit Award	Total Issued	Number of Awards Issued	Smallest Award Issued	Largest Award Issued	Average Award Issued	Median Award Issued
2006	\$2,499,904	1,125	\$13	\$113,750	\$2,222	\$650
2007	\$4,886,880	1,850	\$10	\$97,500	\$2,642	\$650
2008	\$6,200,378	2,830	\$12	\$97,500	\$2,191	\$650
2009	\$7,402,020	3,160	\$13	\$124,865	\$2,342	\$650
2010	\$7,499,992	3,029	\$5	\$113,750	\$2,476	\$650
2011	\$7,499,413	2,835	\$10	\$325,000	\$2,645	\$650
Total	\$35,988,586	14,829	\$5	\$325,000	\$2,427	\$650

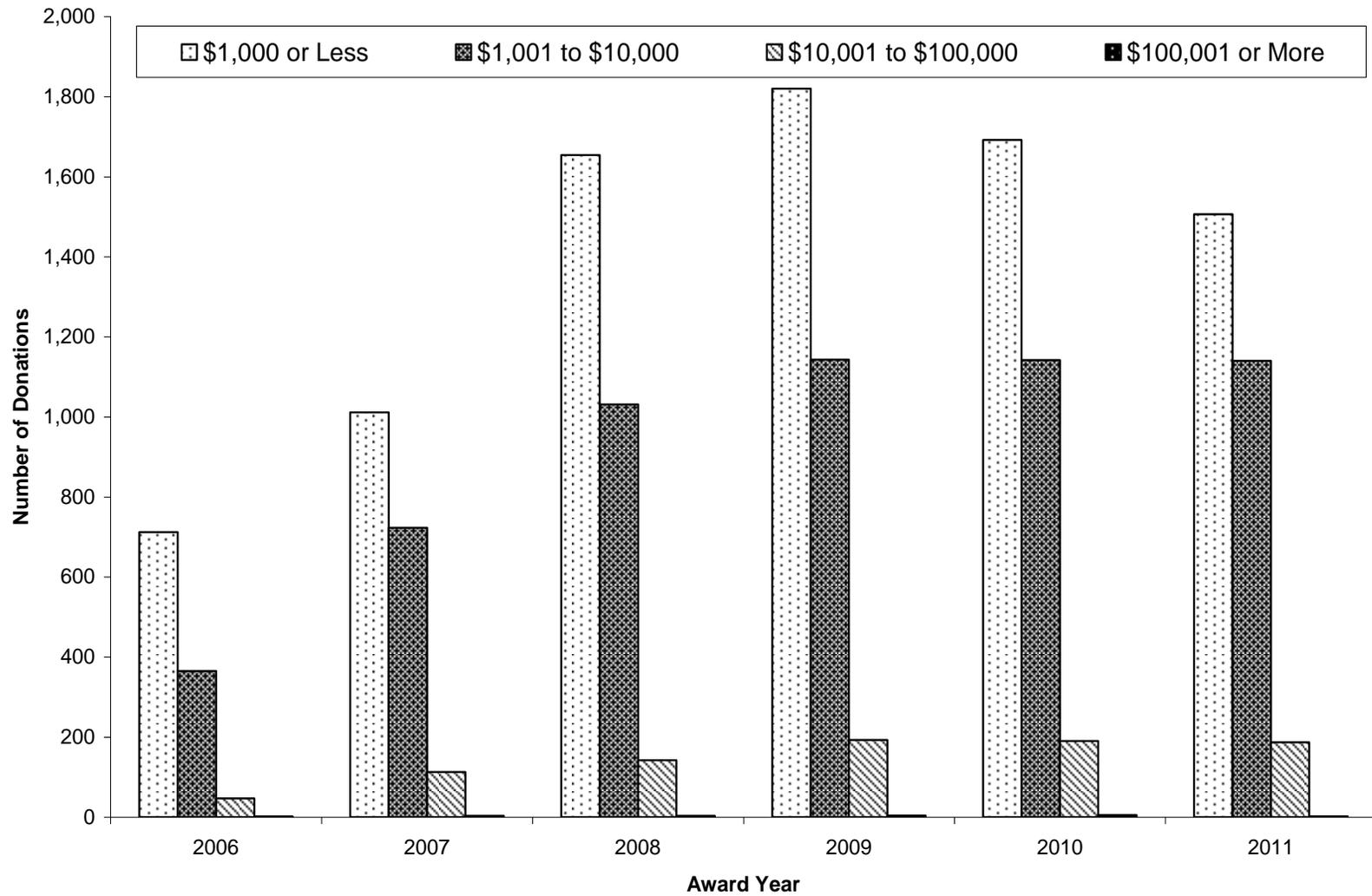
Source: Iowa Department of Revenue Tax Credit Awards Database

**Table 5. School Tuition Organization Scholarship Statistics**

<b>Year of Donation</b>	<b>Amount of Donations</b>	<b>Amount of Scholarships the following School Year</b>	<b>Number of Scholarships Issued</b>	<b>Average Scholarship Amount</b>	<b>Percent of Donations Distributed as Scholarships</b>	<b>Administrative Expenses</b>
2006	\$3,846,006	\$3,603,913	7,410	\$486	93.71%	\$242,093
2007	\$7,439,826	\$7,072,311	8,538	\$828	95.06%	\$367,515
2008	\$9,538,522	\$8,873,058	9,280	\$956	93.02%	\$665,464
2009	\$11,394,228	\$11,070,539	10,280	\$1,077	97.16%	\$323,689
2010	\$11,538,862	\$10,793,964	10,537	\$1,024	93.54%	\$744,898
2011	\$11,536,961			Not Yet Reported		
Totals through 2010	\$43,757,444	\$41,413,785	46,045	\$899	94.64%	\$2,343,659

Source: Annual Reports Received from School Tuition Organizations.

**Figure 1. Distribution of the Number of Donations by Donation Amount**



Source: Iowa Department of Revenue Tax Credit Awards Database

Figure 2. Total School Tuition Organization Tax Credit Awards by School District, Tax Year 2010

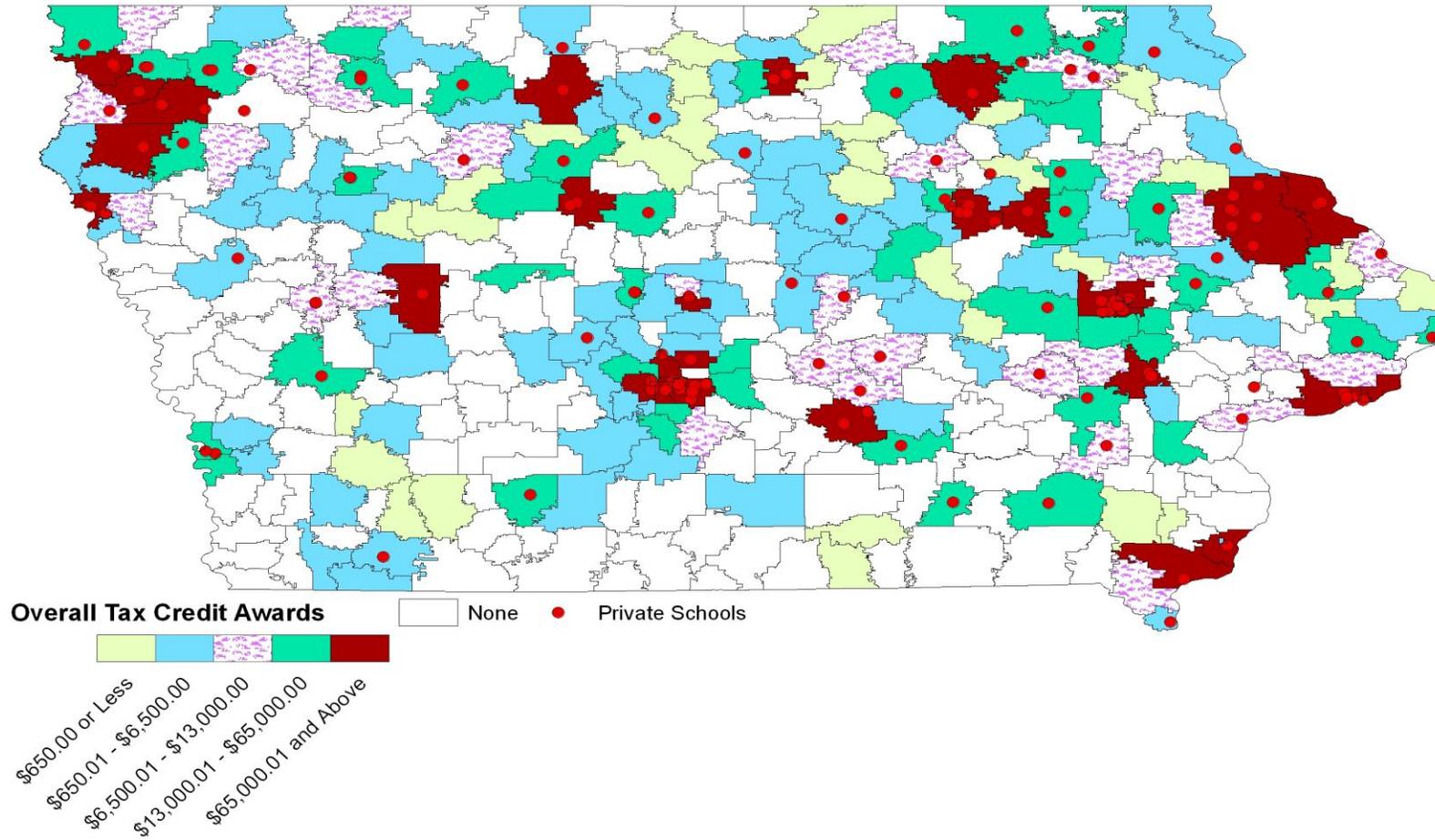
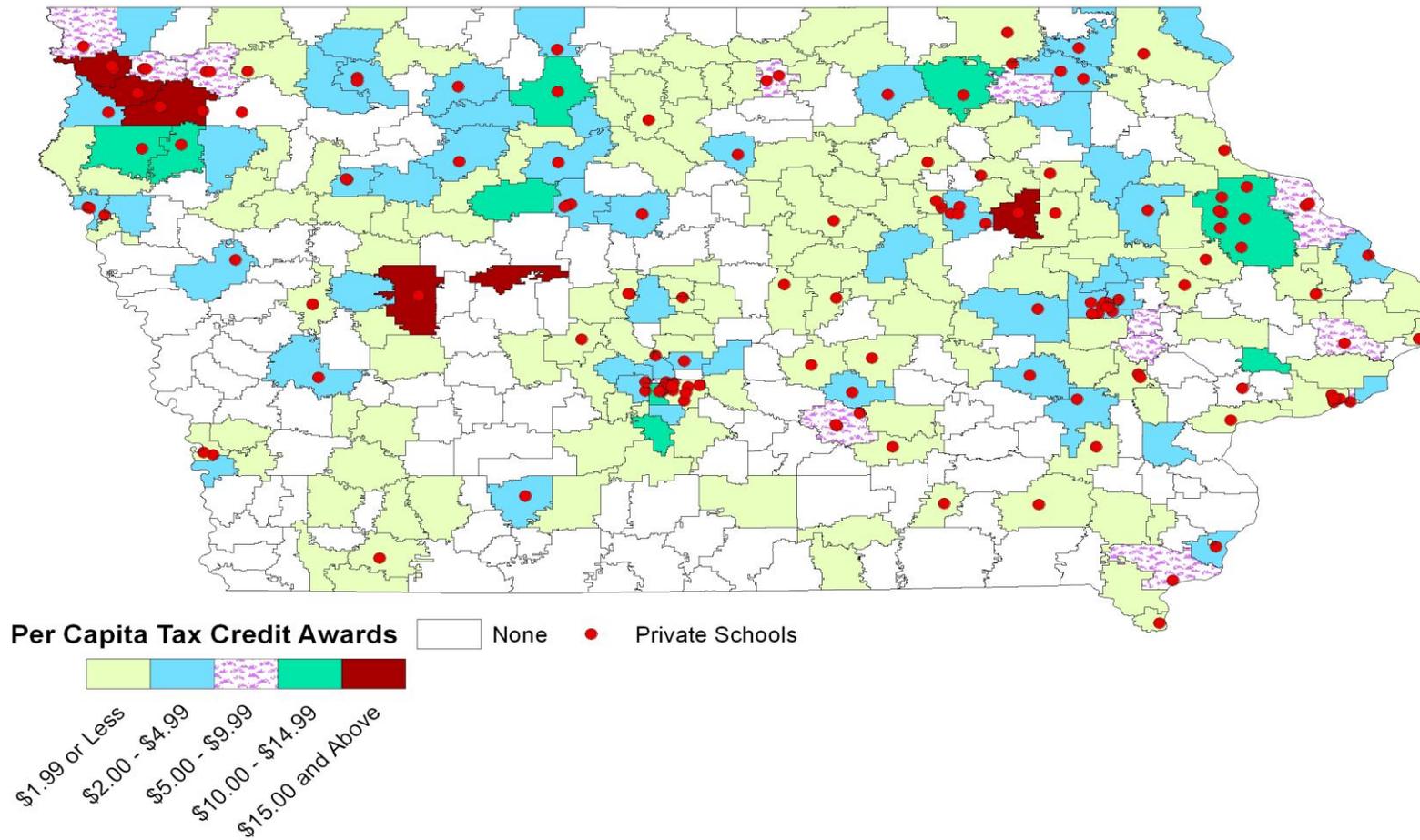


Figure 3. Per Capita School Tuition Organization Tax Credit Awards by School District, Tax Year 2010



**Table 6. Distribution of School Tuition Organization Tax Credit Awards by Taxpayer Type**

Year of Award	Awards to Individuals			Awards to Corporations			Distribution of \$ to Individuals
	Number of Awards	Amount of Awards	Average Award	Number of Awards	Amount of Awards	Average Award	
2006	1,125	\$2,499,904	\$2,222	NA			100.00%
2007	1,850	\$4,886,880	\$2,642	NA			100.00%
2008	2,830	\$6,200,378	\$2,191	NA			100.00%
2009	3,158	\$7,400,723	\$2,343	2	\$1,300	\$650	99.98%
2010	3,009	\$7,310,000	\$2,429	19	\$189,280	\$9,962	97.48%
2011	2,817	\$7,405,752	\$2,629	18	\$93,661	\$5,203	98.75%
Total	14,789	\$35,703,637	\$2,414	39	\$284,241	\$7,288	99.21%

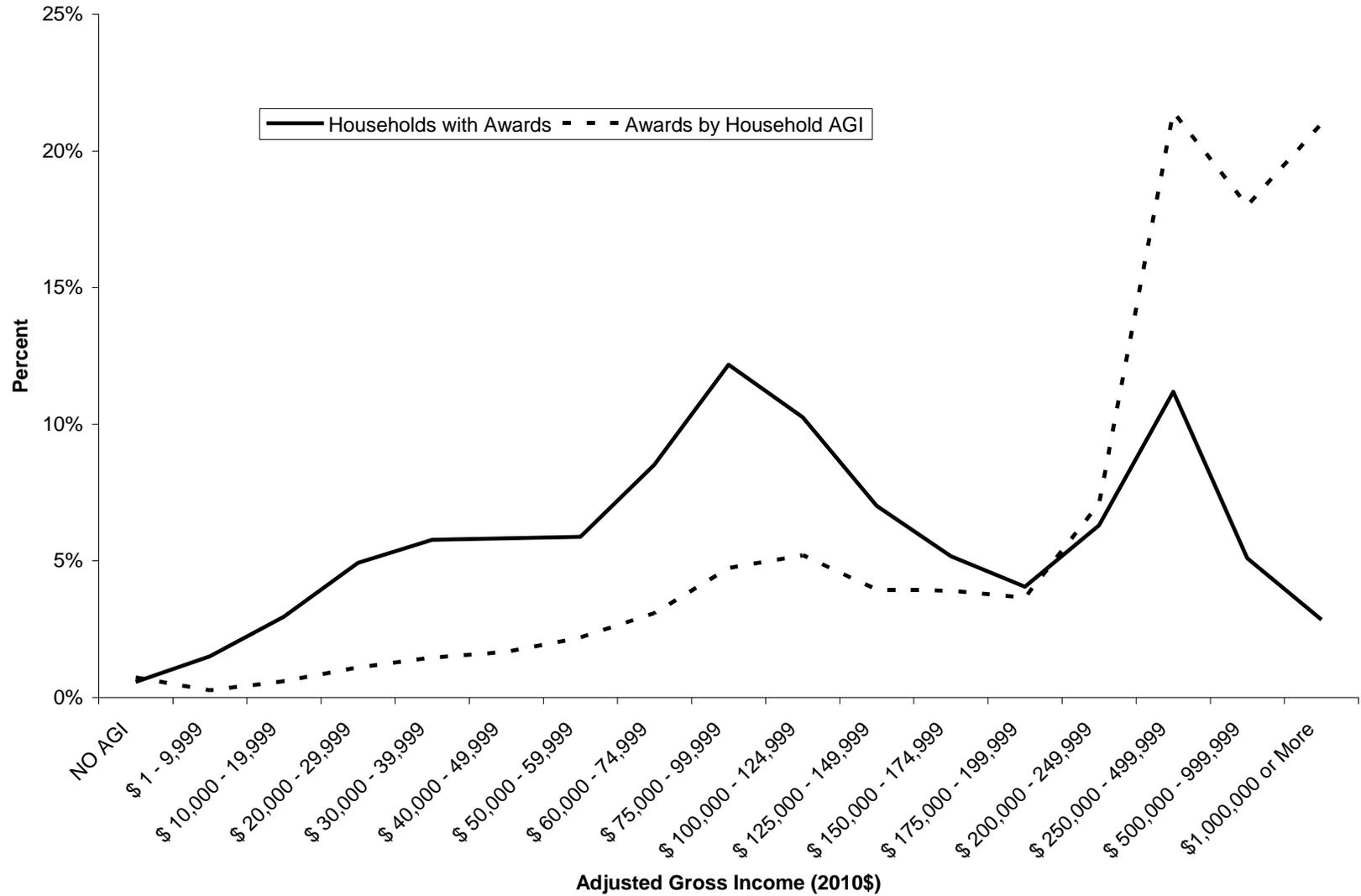
Source: Iowa Department of Revenue Tax Credit Awards Database

**Table 7. School Tuition Organization Tax Credit Awards by Household AGI, Tax Years 2006 through 2010**

Household Adjusted Gross Income (in 2010\$)	Number of Households with Tax Credit Awards	Percent of Households with Tax Credits	Total Amount of Tax Credit Awards	Percent of Total Tax Credit Awards Issued	Average Household Tax Credit Award
NO AGI	63	0.57%	\$202,072	0.73%	\$3,207
\$ 1 - 9,999	167	1.51%	\$72,550	0.26%	\$434
\$ 10,000 - 19,999	327	2.95%	\$165,879	0.60%	\$507
\$ 20,000 - 29,999	546	4.93%	\$305,620	1.10%	\$560
\$ 30,000 - 39,999	639	5.76%	\$404,355	1.46%	\$633
\$ 40,000 - 49,999	645	5.82%	\$461,794	1.66%	\$716
\$ 50,000 - 59,999	651	5.87%	\$607,683	2.19%	\$933
\$ 60,000 - 74,999	944	8.52%	\$854,179	3.07%	\$905
\$ 75,000 - 99,999	1,350	12.18%	\$1,315,222	4.73%	\$974
\$ 100,000 - 124,999	1,136	10.25%	\$1,446,151	5.20%	\$1,273
\$ 125,000 - 149,999	777	7.01%	\$1,094,151	3.94%	\$1,408
\$ 150,000 - 174,999	573	5.17%	\$1,085,828	3.91%	\$1,895
\$ 175,000 - 199,999	449	4.05%	\$1,012,733	3.64%	\$2,256
\$ 200,000 - 249,999	698	6.30%	\$1,971,254	7.09%	\$2,824
\$ 250,000 - 499,999	1,240	11.19%	\$5,951,411	21.42%	\$4,800
\$ 500,000 - 999,999	565	5.10%	\$5,000,927	18.00%	\$8,851
\$1,000,000 or More	315	2.84%	\$5,832,736	20.99%	\$18,517
Total	11,085		\$27,784,545		\$2,506

Source: Iowa Department of Revenue Tax Credit Awards Database and Individual Income Tax Returns

**Figure 4. Distribution of Households with Tax Credit Awards vs. Distribution of STO Tax Credits Awarded by Household AGI, Tax Years 2006 through 2010**



Source: Iowa Department of Revenue Tax Credit Awards Database and Individual Income Tax Returns

**Table 8. School Tuition Organization Tax Credit Awards by Filing Status, Tax Years 2006 through 2010**

Filing Status	Number of Households with Tax Credit Awards	Percent of Households with Tax Credits	Total Amount of Tax Credit Awards	Percent of Total Tax Credit Awards Issued	Average Household Tax Credit Award
Single	2,114	19.15%	\$2,552,841	9.21%	\$1,208
Married Filing Jointly	1,935	17.53%	\$8,930,921	32.22%	\$4,615
Married Filing Separately on Combined Return	6,832	61.88%	\$15,956,775	57.56%	\$2,336
Married Filing Separately on Separate Return	59	0.53%	\$65,794	0.24%	\$1,115
Head of Household	94	0.85%	\$203,932	0.74%	\$2,169
Qualifying Widow(er) with Dependent Child	6	0.05%	\$10,790	0.04%	\$1,798
Total	11,040		\$27,721,053		\$2,511

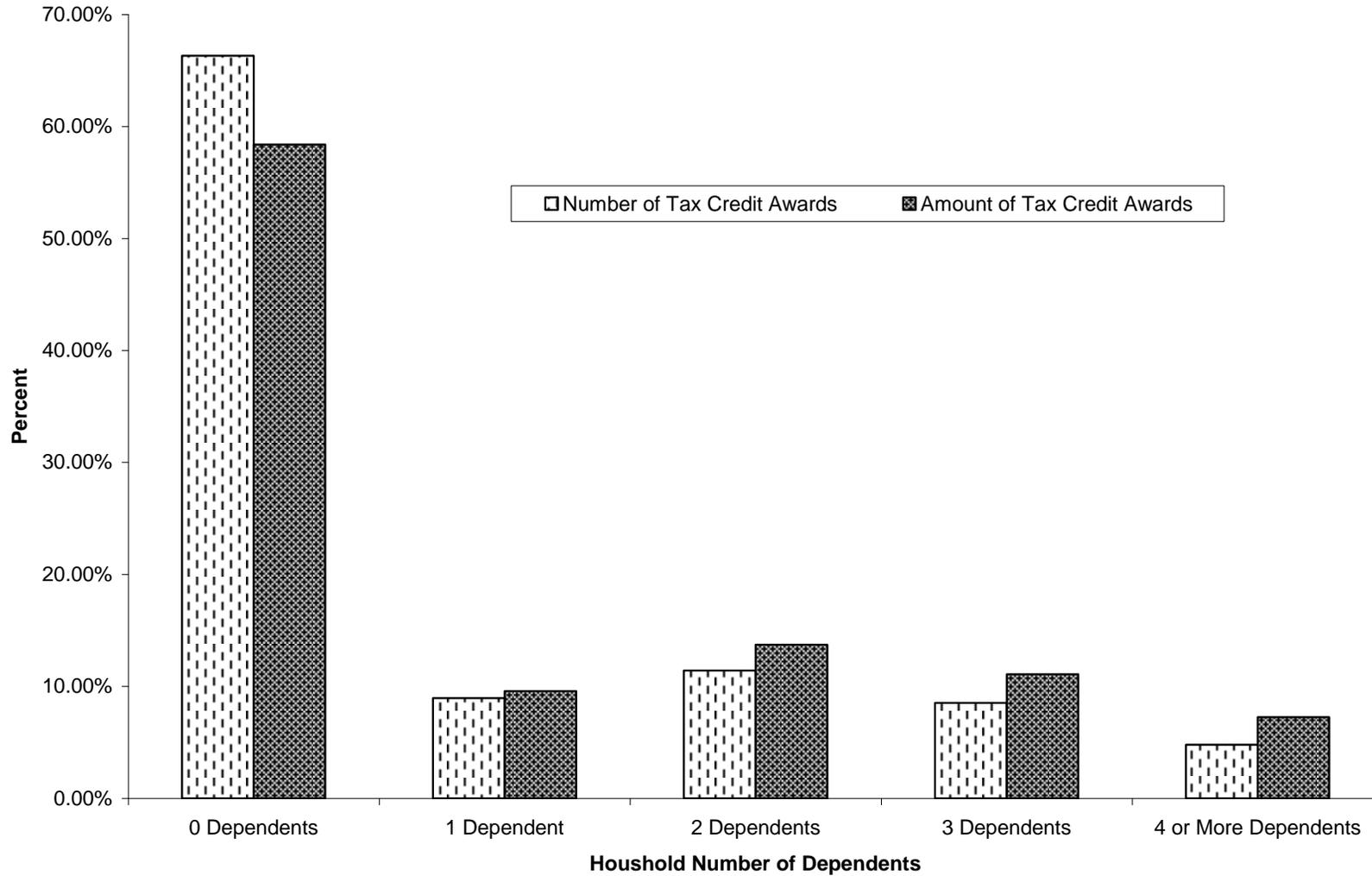
Source: Iowa Department of Revenue Tax Credit Awards Database and Individual Income Tax Returns

**Table 9. School Tuition Organization Tax Credit Awards by Number of Dependents, Tax Years 2006 through 2010**

Number of Dependents in the Household	Number of Households with Tax Credit Awards	Percent of Households with Tax Credits	Total Amount of Tax Credit Awards	Percent of Total Tax Credit Awards Issued	Average Household Tax Credit Award
0 Dependents	7,321	66.31%	\$16,184,135	58.38%	\$2,211
1 Dependent	989	8.96%	\$2,656,291	9.58%	\$2,686
2 Dependents	1,260	11.41%	\$3,802,948	13.72%	\$3,018
3 Dependents	942	8.53%	\$3,068,915	11.07%	\$3,258
4 or More Dependents	528	4.78%	\$2,008,764	7.25%	\$3,804
Total	11,040		\$27,721,053		\$2,511

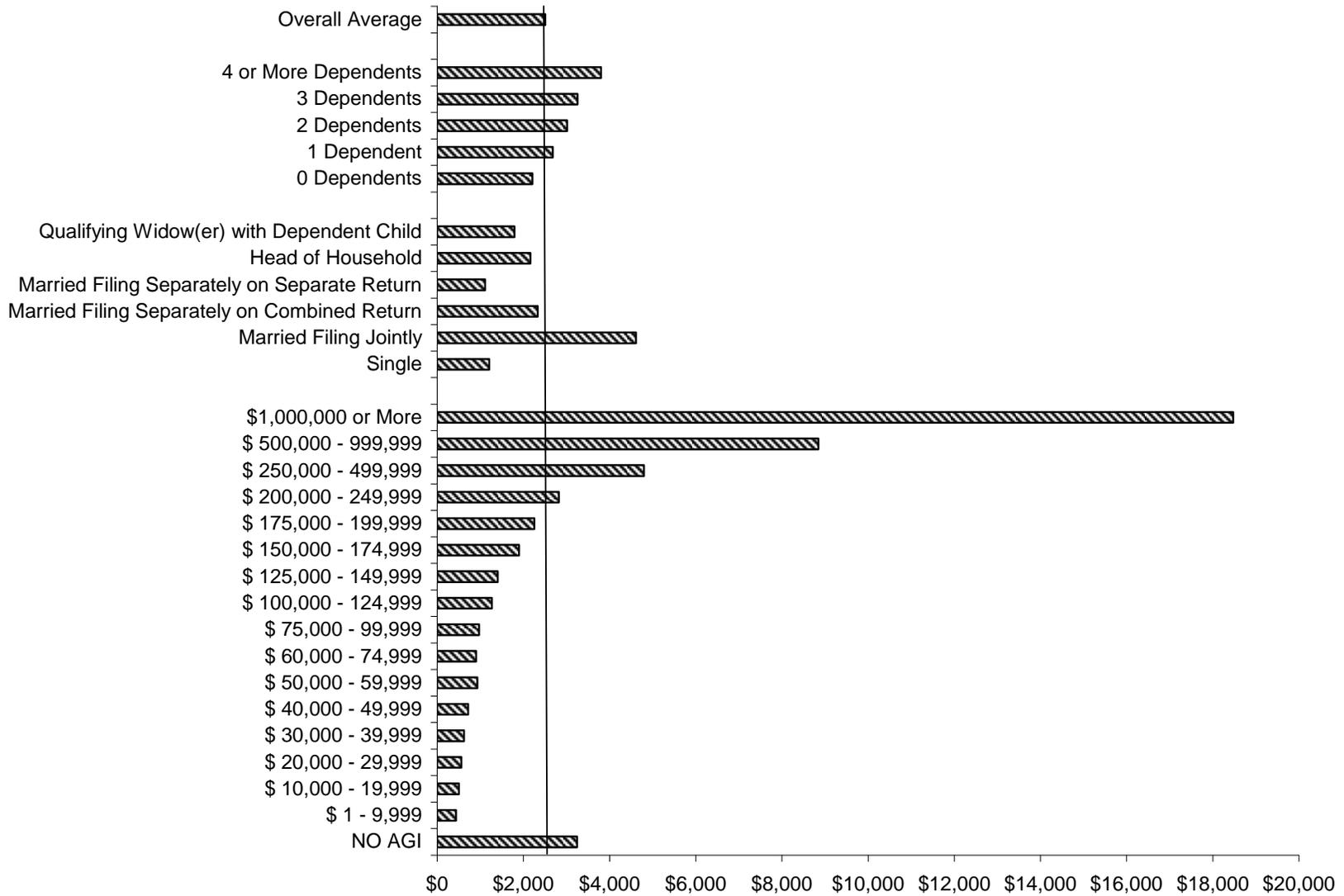
Source: Iowa Department of Revenue Tax Credit Awards Database and Individual Income Tax Returns

**Figure 5. Percent of Households with Tax Credit Awards by Number of Dependents vs. Percent of STO Tax Credits Awarded by Number of Dependents, Tax Years 2006 through 2010**



Source: Iowa Department of Revenue Tax Credit Awards Database and Individual Income Tax Returns

**Figure 6. Average Tax Credit Award by Different Household Characteristics including Number of Dependents, Filing Status, and Household Adjusted Gross Income, Tax Years 2006 through 2010**



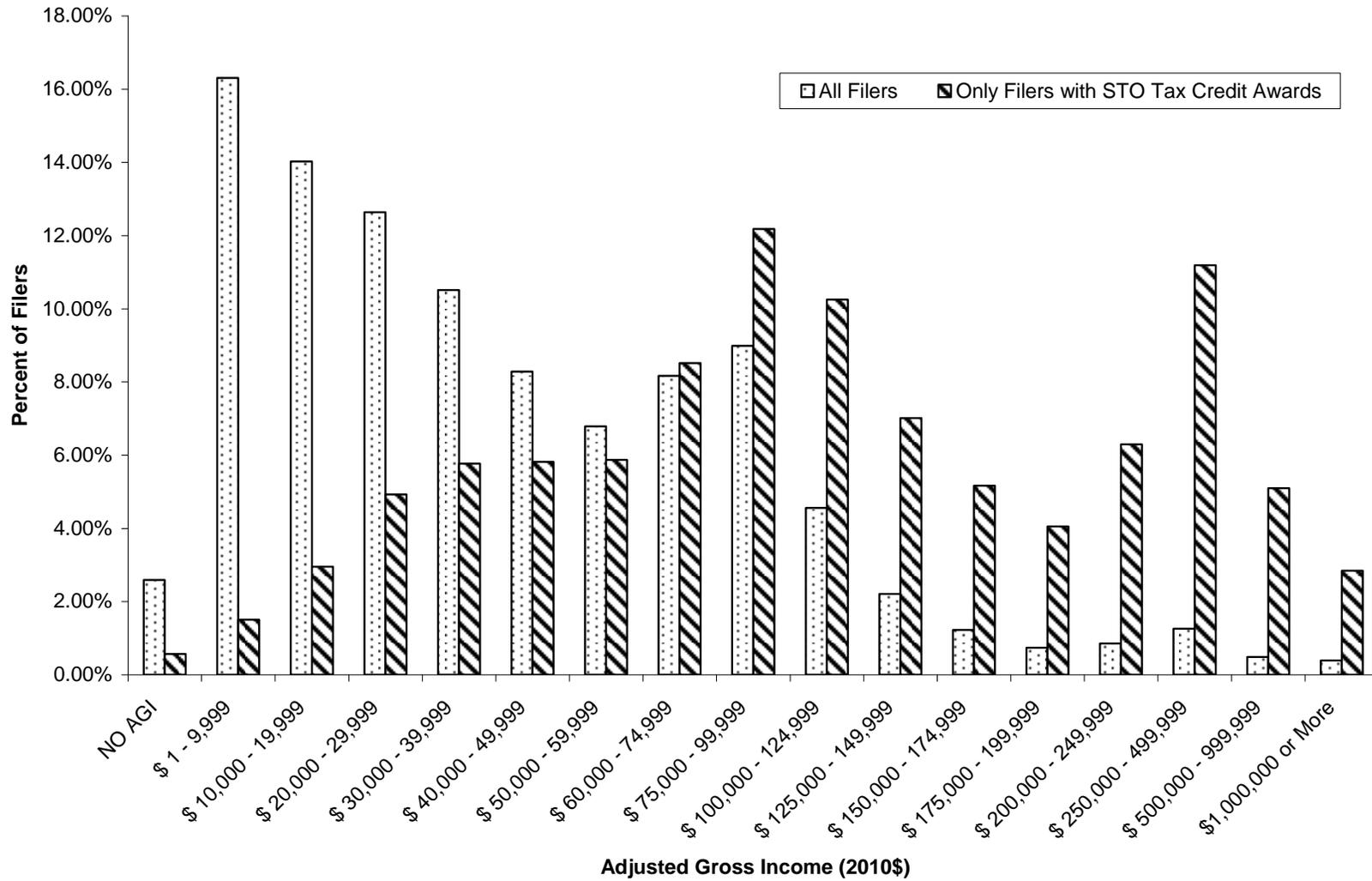
Source: Iowa Department of Revenue Tax Credit Awards Database and Individual Income Tax Returns

**Table 10. Persistence of School Tuition Organization Tax Credit Awards by Households, Tax Years 2006 through 2010**

<u>Number of STO Donations</u>	<u>Number of Households</u>	<u>Percent of Households</u>
1	1,798	37.88%
2	1,051	22.14%
3	846	17.83%
4	653	13.76%
5	398	8.39%
	<u>4,746</u>	

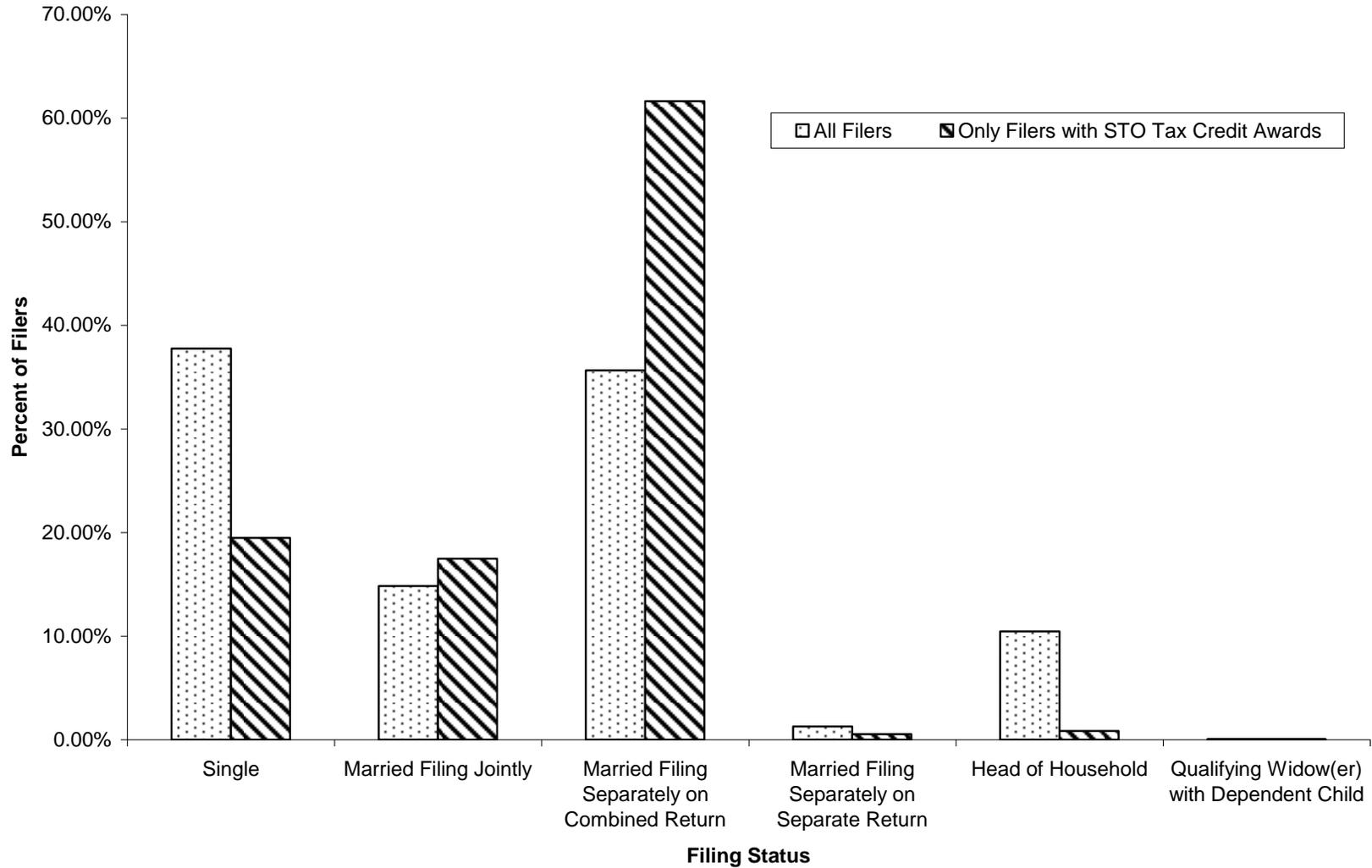
Source: Iowa Department of Revenue Tax Credit Awards Database

**Figure 7. Adjusted Gross Income of All Income Tax Filers and Households with STO Awards, Tax Years 2006 through 2010**



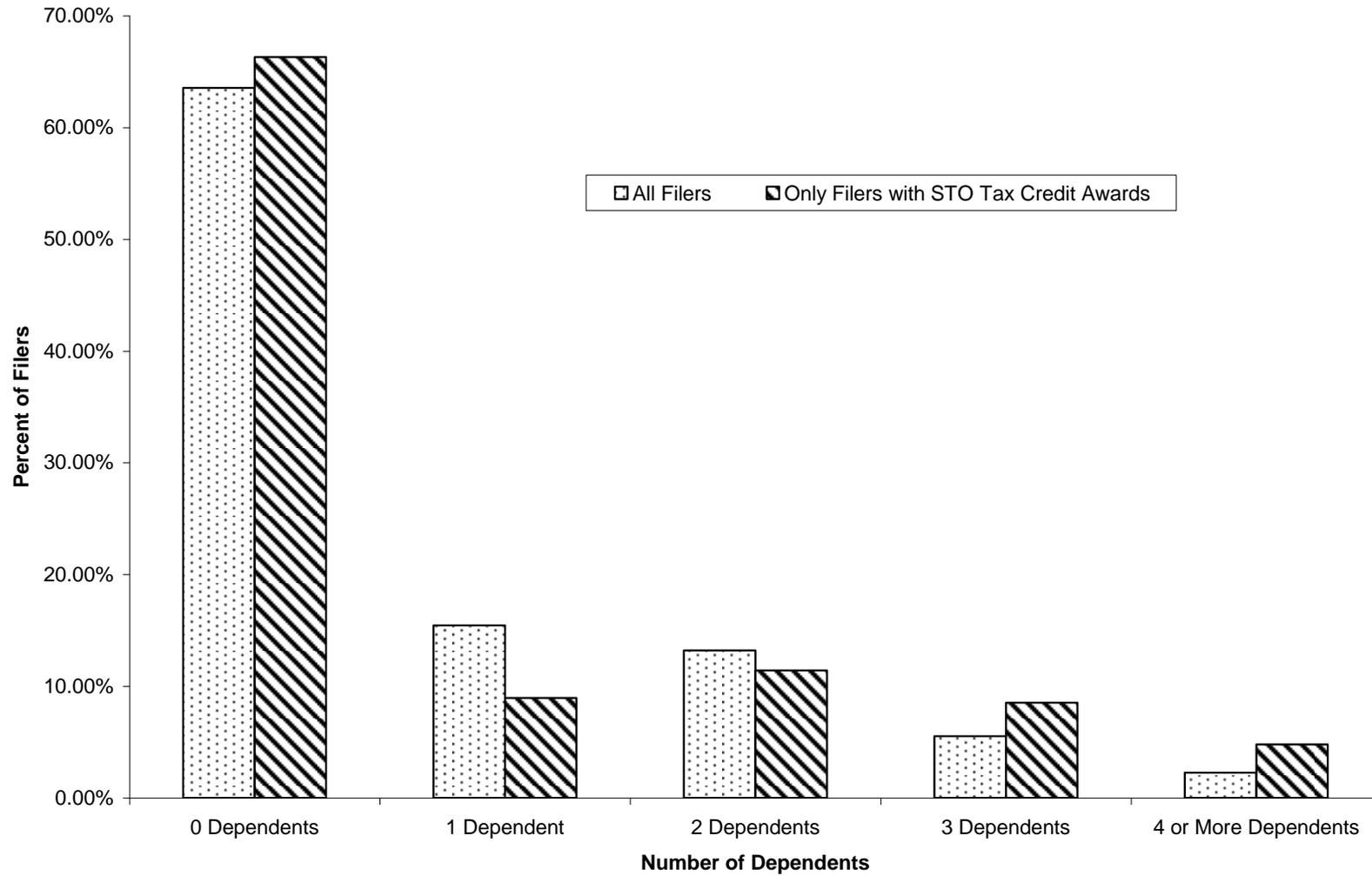
Source: Iowa Department of Revenue Tax Credit Awards Database and Individual Income Tax Returns

**Figure 8. Filing Status of Households for All Income Tax Filers and Filers with STO Tax Credit Awards, Tax Years 2006 through 2010**



Source: Iowa Department of Revenue Tax Credit Awards Database and Individual Income Tax Returns

**Figure 9. Number of Dependents in Households for All Income Tax Filers and Filers with STO Tax Credit Awards, Tax Years 2006 through 2010**



Source: Iowa Department of Revenue Tax Credit Awards Database and Individual Income Tax Returns

**Table 11. School Tuition Organization Tax Credit Claims by Award Year, Tax Year, and Fiscal Year**

Year	Award Year		Tax Year		Fiscal Year	
	Number Claimed	Total Claimed	Number Claimed	Total Claimed	Number Claimed	Total Claimed
2006	1,327	\$2,420,606	1,115	\$2,190,454	0	\$0
2007	2,298	\$4,739,341	2,001	\$4,474,549	1,054	\$1,877,835
2008	3,564	\$5,853,104	3,123	\$5,596,503	1,916	\$3,931,024
2009	3,962	\$6,996,831	3,714	\$6,876,189	3,068	\$5,678,709
2010	3,496	\$7,008,486	3,900	\$7,365,668	3,671	\$6,592,509
2011	2,386	\$5,178,369	3,293	\$5,763,933	3,888	\$6,945,632
2012	NA		NA		3,409	\$6,811,694
2013	NA		NA		104	\$274,553
Missing	113	\$70,559	0	\$0	36	\$155,340
	17,146	\$32,267,296	17,146	\$32,267,296	17,146	\$32,267,296

Notes: Of the total claims, corporate income taxpayer claims only account for \$227,755. Claims missing an award year reflects claims that were made without certificate numbers and are being reviewed by Tax Research to verify the validity of the claim. Claims missing a fiscal year reflect information available in the tax credits claim database that could not be matched to a filed return at the time of this study due to a delay in processing.

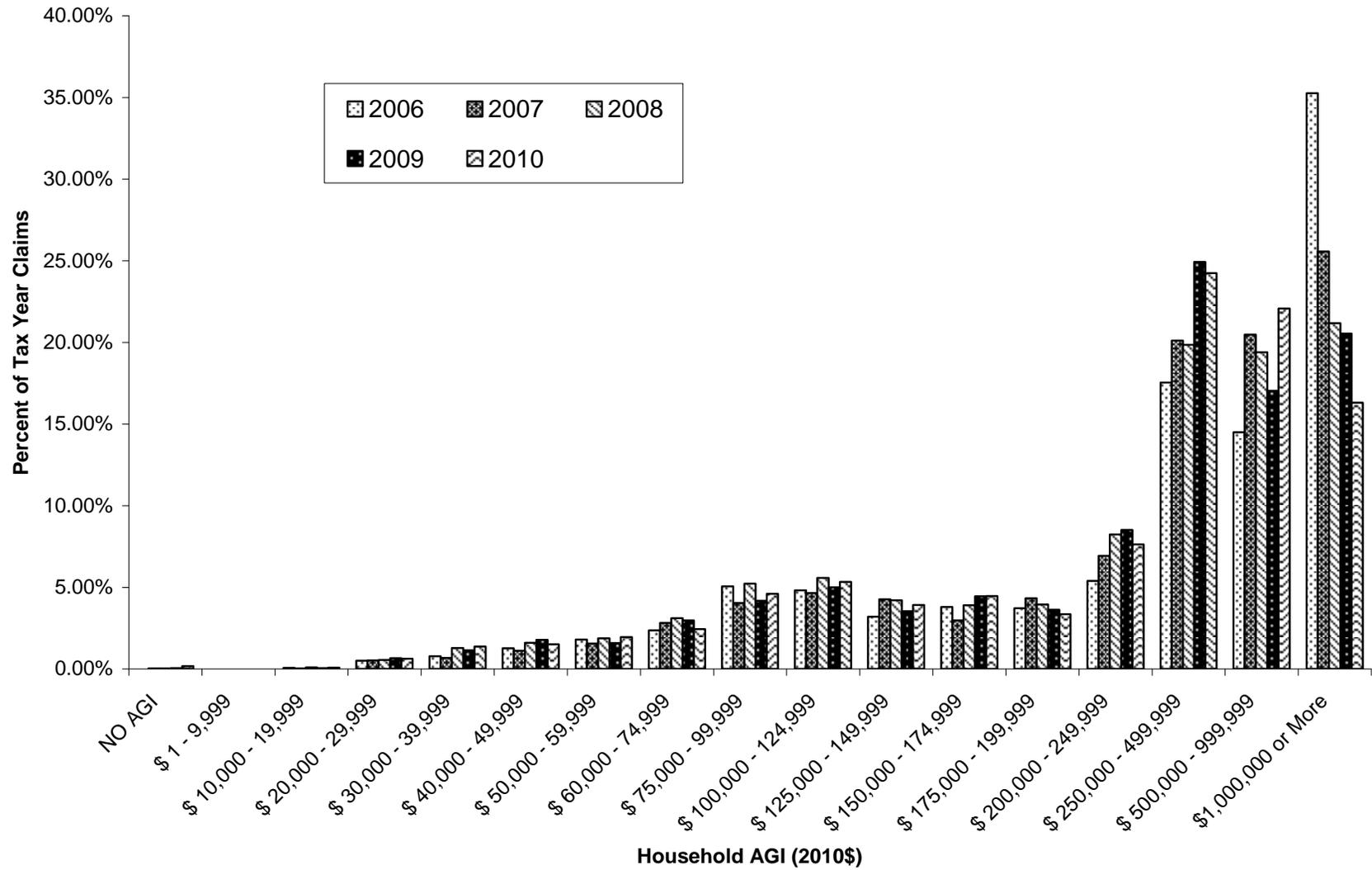
Source: Iowa Department of Revenue Tax Credit Claims Database and Individual Income Tax Returns

**Table 12. Timing of School Tuition Organization Tax Credit Claims**

<b>Year of Tax Credit Award</b>	<b>Total Issued</b>	<b>Percent Claimed in First Year</b>	<b>Percent Claimed in Second Year</b>	<b>Percent Claimed in Third Year</b>	<b>Percent Claimed in Fourth Year</b>	<b>Percent Claimed in Fifth Year</b>	<b>Percent Claimed in Final Year</b>	<b>Amount Remaining</b>
2006	\$2,499,904	87.62%	6.41%	2.37%	0.07%	0.16%	0.20%	3.17%
2007	\$4,886,880	88.28%	5.91%	1.71%	0.92%	0.16%		3.02%
2008	\$6,200,378	84.52%	7.10%	2.11%	0.64%			5.62%
2009	\$7,402,020	85.62%	7.58%	1.32%				5.47%
2010	\$7,499,992	86.42%	5.58%					8.00%
2011*	\$7,499,413	68.00%						32.00%
<b>Average</b>		83.41%	6.52%	1.88%	0.54%	0.16%	0.20%	7.29%

Source: Iowa Department of Revenue Tax Credit Claims Database and Individual Income Tax Returns

**Figure 10. Percent of School Tuition Organization Tax Credit Claims by AGI, Tax Years 2006 through 2010**



Source: Iowa Department of Revenue Tax Credit Claims Database and Individual Income Tax Returns

**Table 13. School Tuition Organization Tax Credit Claims by Household AGI, Tax Years 2006 through 2010**

Household Adjusted Gross Income (in 2010\$)	Number of Households with Tax Credit Claims	Percent of Households with Tax Claims	Total Amount of Tax Credit Claims	Percent of Total Tax Credit Claims Issued	Average Household Tax Credit Claim
NO AGI	74	0.68%	\$20,792	0.07%	\$281
\$ 1 - 9,999	142	1.31%	\$182	0.00%	\$1
\$ 10,000 - 19,999	299	2.77%	\$18,580	0.06%	\$62
\$ 20,000 - 29,999	566	5.24%	\$189,873	0.60%	\$335
\$ 30,000 - 39,999	622	5.75%	\$357,868	1.13%	\$575
\$ 40,000 - 49,999	621	5.75%	\$495,812	1.56%	\$798
\$ 50,000 - 59,999	624	5.77%	\$549,766	1.73%	\$881
\$ 60,000 - 74,999	911	8.43%	\$894,353	2.81%	\$982
\$ 75,000 - 99,999	1,299	12.02%	\$1,428,243	4.49%	\$1,099
\$ 100,000 - 124,999	1,083	10.02%	\$1,624,205	5.11%	\$1,500
\$ 125,000 - 149,999	760	7.03%	\$1,212,452	3.81%	\$1,595
\$ 150,000 - 174,999	564	5.22%	\$1,304,344	4.10%	\$2,313
\$ 175,000 - 199,999	445	4.12%	\$1,183,236	3.72%	\$2,659
\$ 200,000 - 249,999	694	6.42%	\$2,489,990	7.83%	\$3,588
\$ 250,000 - 499,999	1,223	11.31%	\$7,218,658	22.70%	\$5,902
\$ 500,000 - 999,999	569	5.26%	\$5,998,780	18.86%	\$10,543
\$1,000,000 or More	313	2.90%	\$6,812,256	21.42%	\$21,764
Total	10,809		\$31,799,390		\$2,942

Source: Iowa Department of Revenue Tax Credit Claims Database and Individual Income Tax Returns

Note: The total amount of claims is less than the amount presented in Table 11 because this table reflects only claims reported on the IA 148 that could be matched to an IA 1040.

**Table 14. School Tuition Organization Tax Credit Claims with Carry Forward by Household, Tax Years 2006 through 2010**

Tax Year	Number of Households with Available Tax Credits	Number of Households with Carry Forward	Percent with Carry Forward	Average Percent of Credits Carried Forward for Households with Carry Forward
2006	1,032	135	13.08%	53.37%
2007	1,715	301	17.55%	54.24%
2008	2,556	548	21.44%	58.41%
2009	2,779	721	25.94%	66.97%
2010	2,870	762	26.55%	61.35%
Total	10,952	2,467	22.53%	61.03%

Source: Iowa Department of Revenue Tax Credit Claims Database and Individual Income Tax Returns

**Table 15. School Tuition Organization Tax Credit Carry Forward by Household AGI, Tax Years 2006 through 2010**

Household Adjusted Gross Income (in 2010\$)	2006		2007		2008		2009		2010	
	Number of Households with Carry Forward	Amount of Carry Forward	Number of Households with Carry Forward	Amount of Carry Forward	Number of Households with Carry Forward	Amount of Carry Forward	Number of Households with Carry Forward	Amount of Carry Forward	Number of Households with Carry Forward	Amount of Carry Forward
NO AGI	1	\$650	4	\$4,064	16	\$30,348	31	\$111,392	26	\$153,237
\$ 1 - 9,999	2	\$714	11	\$8,576	29	\$23,487	63	\$112,506	52	\$57,204
\$ 10,000 - 19,999	15	\$4,704	26	\$13,599	53	\$31,986	98	\$148,668	105	\$94,947
\$ 20,000 - 29,999	24	\$10,462	53	\$31,120	80	\$69,181	120	\$214,026	111	\$94,844
\$ 30,000 - 39,999	17	\$8,907	34	\$13,842	67	\$36,755	80	\$121,722	98	\$83,340
\$ 40,000 - 49,999	9	\$4,342	22	\$8,836	48	\$27,479	60	\$156,018	54	\$56,901
\$ 50,000 - 59,999	17	\$13,292	22	\$16,073	42	\$93,937	38	\$77,178	54	\$70,903
\$ 60,000 - 74,999	6	\$2,193	24	\$39,380	44	\$55,219	55	\$168,448	52	\$89,509
\$ 75,000 - 99,999	11	\$11,291	24	\$22,651	36	\$53,129	42	\$135,806	54	\$100,674
\$ 100,000 - 124,999	3	\$7,217	15	\$11,816	33	\$50,113	24	\$41,494	35	\$155,807
\$ 125,000 - 149,999	4	\$3,183	8	\$14,846	19	\$35,547	23	\$91,716	27	\$29,153
\$ 150,000 - 174,999	2	\$772	5	\$8,864	9	\$13,505	10	\$39,720	10	\$24,014
\$ 175,000 - 199,999	1	\$2,157	8	\$18,435	8	\$14,782	8	\$46,180	16	\$12,713
\$ 200,000 - 249,999	6	\$12,596	12	\$19,280	19	\$68,065	19	\$120,606	17	\$69,322
\$ 250,000 - 499,999	8	\$41,839	20	\$116,148	25	\$154,056	35	\$436,896	36	\$178,594
\$ 500,000 - 999,999	5	\$95,653	9	\$188,557	14	\$102,606	11	\$187,970	12	\$114,521
\$1,000,000 or More	4	\$33,775	4	\$56,038	6	\$186,432	4	\$288,116	3	\$18,448
Total	135	\$253,747	301	\$592,125	548	\$1,046,627	721	\$2,498,462	762	\$1,404,131

Source: Iowa Department of Revenue Tax Credit Claims Database and Individual Income Tax Return

**Table 16. Estimated After-Tax Cost of School Tuition Organization Tax Credit Contribution, Tax Year 2010**

Household Adjusted Gross Income	After-Tax Cost of \$1,000 Donation in TY 2010*
Less than \$20,000	\$971
\$20,001 to 30,000	\$716
\$30,001 to 40,000	\$568
\$40,001 to 50,000	\$499
\$50,001 to 60,000	\$492
\$60,001 to 70,000	\$455
\$70,001 to 80,000	\$449
\$80,001 to 90,000	\$254
\$90,001 to 100,000	\$450
\$100,001 to 125,000	\$357
\$125,001 to 150,000	\$182
\$150,001 to 175,000	\$153
\$175,001 to 200,000	\$125
\$200,001 to 250,000	\$145
\$250,001 to 500,000	\$96
\$500,001 to 1,000,000	\$84
\$1,000,001 or more	\$44

Source: Iowa Individual Income Tax Model

\*Calculation is based on tax year 2010 when the maximum federal marginal tax rate was 35% and there was no phase-out of itemized deductions for high-income taxpayers.

**Table 17. Description of Regression Analysis Variables**

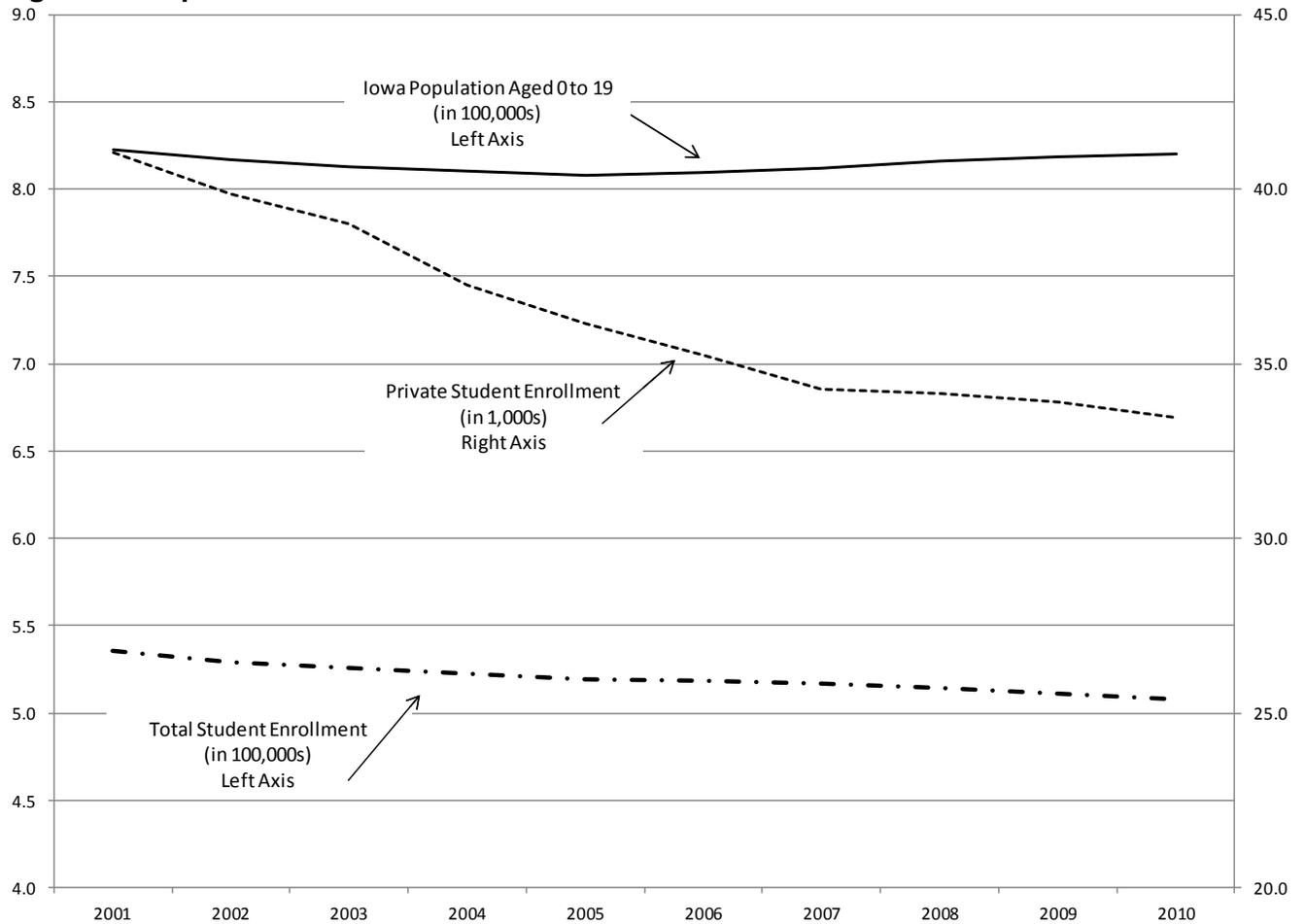
Dependent Variables	Description	Source
Percent Private Enrollment	Percent of children enrolled in private schools as a percentage of total private and public school enrollment in Iowa.	Iowa Department of Education
Private Enrollment (in 1,000s)	Number of children enrolled in private schools in Iowa.	Iowa Department of Education
Independent Variables	Description	Source
Population Aged 0-19 (in 100,000s)	Number of children between the ages of 0-19 in Iowa.	U.S. Census Bureau
Real Tuition 2010\$ (in 1,000s)	The average tuition amount each year for accredited, non-public schools (which included both elementary and high schools) and different student status (church member versus non-member).	Various accredited, non-public schools throughout Iowa.
Real Scholarships 2010\$ (in 1,000s)	Amount of scholarships awarded to students attending schools that participate in Iowa School Tuition Organizations.	Iowa School Tuition Organizations
Number of Private Schools	Number of non-public school buildings in Iowa.	Iowa Department of Education
Observation years 2001 through 2010		

**Table 18. Summary Statistics of Regression Analysis Variables**

Dependent Variables	Average	Standard Deviation	Minimum	Maximum
Percent Private Enrollment	7.00	0.41	6.59	7.67
Private Enrollment (in 1,000s)	36.43	2.74	33.44	41.06
Independent Variables	Average	Standard Deviation	Minimum	Maximum
Population Aged 0-19 (in 100,000s)	8.15	0.05	8.08	8.23
Real Tuition 2010\$ (in 1,000s)	2.94	0.66	1.99	3.93
Real Scholarships 2010\$ (in Millions)	3.02	4.32	0.00	11.07
Number of Private Schools	191.80	10.52	182.00	209.00
Time	5.50	3.03	1.00	10.00

Number of Observations - 10

**Figure 11. Population and Enrollment Trends**



**Table 19. Regression Analysis with the Percent of Private Enrollment as the Dependent Variable**

Independent Variable	Coefficient	t-value
Intercept	4.726	1.89
Private School Tuition in 2010\$	-0.418	-0.61
STO Scholarships Awarded in 2010\$	0.033	1.93
Number of Private Schools	0.018	2.13
Time	-0.020	-0.15
Adjusted R-Squared	0.984	

Note: A t-value with an absolute value greater than 2.0 denotes statistical significance of the corresponding coefficient at the five percent level.

**Table 20. Regression Analysis with Private Enrollment as the Dependent Variable**

Independent Variable	Coefficient	t-value
Intercept	19.433	0.49
Population Aged 0-19	0.583	0.11
Private School Tuition in 2010\$	-0.353	-0.10
STO Scholarships Awarded in 2010\$	0.183	1.48
Number of Private Schools	0.088	1.96
Time	-0.739	-1.03
Adjusted R-Squared	0.991	

Note: A t-value with an absolute value greater than 2.0 denotes statistical significance of the corresponding coefficient at the five percent level.